S. HRG. 98-300

ADMINISTRATION'S BUDGET PROPOSALS FOR THE FOOD AND NUTRITION SERVICE PROGRAMS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

APRIL 11, 1983

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
24-424 O WASHINGTON : 1983

S/61-27

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MONDAY, APRIL 11, 1983

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The committee met, pursuant to notice, at 10:35 a.m., Hon. Jesse Helms (chairman of the committee) presiding.

Present: Senators Helms and Andrews.

STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. The committee will come to order.

The purpose of the hearing this morning is to acquire as comprehensive an understanding as may be possible of the administration's new proposals for the food stamp and child nutrition programs.

There are probably no other areas within this committee's jurisdiction which are as subject to misinformation and misperception as are these two programs.

Driving to work one morning last week, I heard a newscaster lamenting the fact that the drastic cuts in the food stamp program and child nutrition program were, as he put it, putting hundreds of thousands on the borderline of starvation.

I don't know where the young man got his information, but it certainly is not accurate. He didn't say where he got his information. So often the news media does not specify the source of their information.

In any case, these two programs and the other feeding programs cost about $18 billion, which is more than half of the entire budget of the Department of Agriculture.

Despite efforts on the part of some of us to reform these programs, I suppose the best that can be said is that the rate of increase in the cost and size of the program has been slowed somewhat, not halted. The food stamp program, as a matter of fact, costs more than it ever has before.

It's not accurate to say that these programs have suffered the massive cutbacks that have been portrayed by some.

The food stamp program participation has increased from 19 million to more than 22 million during the past 2 years. The cost of the program has increased from $11 billion in fiscal year 1981 to $13 billion in the current fiscal year. Household benefits have in-

creased each year. But let's take a look at the reforms and their purposes with regard to the food stamp program.

First, in order to prevent fraud and abuse, countless loopholes in the food stamp program have been plugged. Much, but by no means all, of the fraudulent participation that has been identified recently has been possible precisely because of the antifraud reforms which have passed in recent years. Second, to slow the growth of the program, delays in the indexing of benefits have postponed, not canceled, food stamp increases. Third, to improve the administration of the program, and this has been sorely needed all along, many of the proposals adopted in the recent past have been designed to improve the day-to-day operation of the program. By so doing, legitimate recipients can be better served and detection of nonneedy applicants can be more effective. Strikers have been eliminated from participation in the food stamp program, and that was long overdue.

We have permitted counties and States to adopt workfare programs for able-bodied food stamp recipients. We have insured that the first month's benefits are prorated—a model which has since been followed in other programs.

All in all, when you look at it, when you look at the facts, the record of the administration is scarcely one that can be classified as unresponsive to the true needs of the poor. From what I've been able to determine, the administration's fiscal year 1984 budget proposals are in the same vein. Most of the proposals are aimed at administrative simplification. Indeed, the largest savings in the administration package is not from cutting benefits, or even postponing increases; rather, the savings come from requiring States to lower their overissuance errors to 3 percent or, failing that, to reimburse the Federal Government for errors above that level.

It should be emphasized that such a proposal does not affect 1 cent of food stamp benefits to deserving families; rather, it would require the various States to pay the Federal Government for all issuance errors above 3 percent.

This Senator happens to feel that the States should reimburse the Federal Government for all errors. But 3 percent is the same tolerance level that is permitted in the medicaid program, and it's the same tolerance level that is permitted in AFDC. There is no rational reason apparent to me why the food stamp program should provide a more liberal treatment of misapplication of Federal money than is the case with other programs.

Indeed, it's more important in the food stamp program to hold the States accountable because food stamp benefits are 100 percent federally funded. In AFDC and medicaid, the States share in part of the cost of the actual benefits issued, and hence the States have a financial stake in insuring that these programs are more effectively administered.

But in food stamps, that has not been the case. The attitude has been for many State and local officials that, well, it's just Federal money. They have no particular incentive to save that money, because they don't have to raise it.

I think it's important to send a signal to these officials that the Federal Government will not tolerate lax administration of Federal

dollars in the food stamp program. More than $1 billion was lost due to such overissuance errors last year alone.

In the child nutrition area, the primary reforms of 1981 were aimed at improving administration of the programs, tightening of the individual eligibility and better targeting of meal subsidies for needy children.

Federal dollars aimed at families based on need increased from 58 percent in fiscal year 1980 to 73 percent in fiscal year 1983.

This year's proposals are very modest in the child nutrition area, and none of the proposals should adversely affect needy children.

One child nutrition program that is of particular concern to the committee and to Congress is the WIC program. I think it needs to be pointed out that funding of and participation in this program has increased every year since the program began.

It has not been cut, as is so often suggested. This is despite the fact that the best experts in the field who recently testified before the Subcommittee on Nutrition, chaired by the able and distinguished Senator from Kansas, Mr. Dole, do not even agree on whether the program is being effective.

I'm pleased that we have John Bode here this morning to provide us with some facts about the administration's proposal. John, why don't you come over here and have a seat, and I'll see if Senator Andrews has any comments before we ask you to testify.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator ANDREWS. Well, Mr. Chairman, I appreciate that. I came over from a budget meeting because I want to look in on how these programs work.

Mr. Bode appeared before us previously and told us that there were in fact commodities available to these nonprofit organizations, the church groups and the rest and when we checked after his testimony, we found out they weren't.

So I would hope, Mr. Chairman, that we find out what kind of story we're getting from the Department of Agriculture. Mr. Bode told us that in the churches and in the humanitarian groups surplus commodities were available.

And so we checked back to find out whether they were available, and found they weren't.

The CHAIRMAN. Well, let's see if we can find out.

Senator ANDREWS. I'm concerned, and I know the Chairman, is certainly concerned, and it concerns our good colleague from Kansas as well as all the members of this committee.

The CHAIRMAN. All right, Mr. Bode. Come over here and defend yourself.

STATEMENT OF JOHN W. BODE, DEPUTY ASSISTANT SECRETARY OF AGRICULTURE FOR FOOD AND CONSUMER SERVICES, ACCOMPANIED BY CHRIS MARTIN AND GEORGE BRALEY

Mr. BODE. Thank you, Senator.

Senator, I'm very disturbed that there is an impression I have misinformed the committee, and before giving my prepared testimony, I would appreciate the opportunity to pursue this.

The CHAIRMAN. Certainly.

Mr. BODE. Senator Andrews, as I recall, you described a church that was providing food to people?

Senator ANDREWS. They're providing food for lunch programs for people in the District. And I'm sure there are other churches and cities like Detroit, New York, and Boston, probably, that are doing this, as church projects. We felt that there should be the availability of American commodities to those churches and charitable organizations. Out in our home State of North Dakota, and I'm sure in the chairman's State of North Carolina, farmers are getting together and are contributing cash—and they don't have much cash, Mr. Secretary. They're contributing cash to buy carloads of wheat, and then they're getting milling groups to mill it for free. They're having bag companies provide the bags, and they're sending the flour into these areas.

We asked you that day if there wasn't a Federal program and you assured us that there was, and that these kinds of groups can get flour, can get pasta products, can get other surplus commodities. Then when we went back to check, they told us they couldn't.

So we are still trying to chase it down, Jesse.

The CHAIRMAN. Who told you they couldn't?

Senator ANDREWS. The churches, themselves, Mr. Chairman. They have been trying to find out how they get it, and that's the problem.

Mr. BODE. If, in fact——

Senator ANDREWS. Let me restate the question so we know where we're coming from. As of late last year, or early this year, before the jobs bill passed, you feel that these kinds of commodities, flour, pasta products, and the rest, could go to a church that's a nonprofit feeding organization?

Mr. BODE. Onsite feeding operation, most certainly, sir. Last year we provided well over $200 million worth of commodities for that sort of activity.

The process, sir, is one where these institutions are designated by the State agency. Each State, and the District of Columbia, has a commodity distribution agent. That State official designates various institutions as charitable institutions. Once designated by the State, those institutions are almost always approved by the Secretary, and then eligible to receive commodities. The commodities they receive are for the most part surplus commodities held by the Commodity Credit Corporation.

Senator ANDREWS. Flour would certainly be one of them?

Mr. BODE. Yes, sir. Flour, corn meal, and rice; there are other commodities as well.

Senator ANDREWS. Did you need the $50 million or $100 million the Senate put in, and $50 million that the conference finally allowed, did you need that? Was that the sticking point?

Mr. BODE. No, sir, I am very eager to follow up on the specific institutions that you are referring to. I think the problem has taken place not in the providing of commodities for these institutions, but, instead, in institutions being designated by the State agent as charitable institutions.

Senator ANDREWS. So what you're saying is that if a church isn't getting this kind of commodity, the problem lies with the State, or

in this case the District of Columbia, rather than with the Federal Government.

Mr. BODE. I'm not trying to point fingers, sir. What I'd like to do is find out the name of that institution so we can get in touch——

Senator ANDREWS. We'll provide that to you. Mr. Chairman, I don't want to belabor this any more. I just want to make sure that you understood our concern.

Mr. BODE. I do.

Senator ANDREWS. Because the chairman of this committee, and I'm sure Senator Huddleston, and all those of us on both sides of the political aisle in this committee want to make sure that we do, in fact, know how these programs are operating. The reason we put that $100 million into the jobs bill was because we wanted to make sure that we did back stop and follow up if there were any problems.

Because it's idiotic to have these surpluses and have the programs being run by volunteers with no support from surplus commodities. That's not the chairman's intention nor is it my intention.

The CHAIRMAN. Will you yield?

Senator ANDREWS. Surely, Mr. Chairman.

The CHAIRMAN. This is one of those cases where both of you may be exactly right. Now, I have visited a number of such feeding projects in North Carolina, and I've assisted some of them in being certified or designated or whatever the bureaucratic word is. But I know Senator Andrews is not suggesting that you distributed to people, to projects which have not been designated or certified.

I think the best procedure would be for you, Mark, to give Mr. Bode a list of the projects which have not——

Senator ANDREWS. We shall, Mr. Chairman.

The CHAIRMAN. Then we'll get to it that way.

Senator ANDREWS. As a matter of fact, I came back from a budget markup, and, you know we're tied up over there, and I just wanted——

The CHAIRMAN. You have my deepest sympathy.

Senator ANDREWS. I thought he'd be here, and I knew you would be here, and I wanted to express to you my concern over the apparent dissimilarity between what Mr. Bode thought was happening and what we did in fact find.

The CHAIRMAN. I'm certainly glad you did. I'm sure Mr. Bode is, and if you will give him the specific cases.

Senator ANDREWS. We will.

The CHAIRMAN. If it's not rooted out, then you tell me, and we'll get the roto-rooter, and we'll get it.

Senator ANDREWS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Bode, you may proceed with your testimony.

Mr. BODE. Thank you, Mr. Chairman.

If I may, I would like to have two gentlemen from the Food and Nutrition Service join me, because they're very skilled and I believe they would be able to assist me in answering some questions.

They are George Braley, the Deputy Administrator for Special Nutrition Programs, and Chris Martin, who is Assistant Deputy Administrator for Family Nutrition Programs.

The CHAIRMAN. We welcome you to the committee.

Why don't we proceed on an informal basis, and if I decide to interrupt at some point, I'll do that.

So we will listen attentively and appreciatively.

Mr. BODE. Thank you, Senator, since we're proceeding on an informal basis, I just want to say once again what a pleasure it is to be here, and to say that we agree with the points you made in your opening statement. I thought it was a very good and succinct statement of the state of the nutrition assistance programs today. It well identified some problems that exist today, and that's largely with the perception of the programs.

In many cases what people generally think is not exactly consistent with the state of the programs as a whole.

With your permission, I'll summarize my statement and ask that the full statement be put in the record.

The CHAIRMAN. Your statement will be printed in the record in its entirety.[1]

Let me, before you begin, let me urge you not to wait for the list from Senator Andrews or his staff, but for the Department to pursue it.

I think one of the problems in so many Federal programs is the lack of communications and misunderstandings fester when there is no need for them to do so. So if you will follow up as quickly as possible and give Senator Andrews a report, and I would like to have a copy of it, on each instance that he mentioned specifically.

Mr. BODE. Thank you, Senator. We'll be very pleased to do that.

[The following information was subsequently received for the record:]

APRIL 19, 1983.

Hon. MARK ANDREWS,
U.S. Senate, Washington, D.C.

DEAR SENATOR ANDREWS: During the April 11 Hearing before the Senate Agriculture Committee, you repeated your concern, first expressed at the March 14 Hearing of the Subcommittee on Rural Development, Oversight, and Investigations, that a charitable institution in the District of Columbia in need of commodities for its feeding program was not currently receiving them. I indicated then that charitable institutions—if designated as such by the State Commodity Distributing Agent—were certainly eligible and should be able to receive commodities.

Subsequent contact with your staff identified the institution as St. Stephen and the Incarnation Episcopal Church. When staff of the Food and Nutrition Service reached Father Woodard, they learned that he had not contacted the State Distributing Agent in the District of Columbia to apply for commodities. FNS staff instructed Father Woodard in the application procedures, then contacted Mr. Julius Jacobs, the State Distributing Agent for the District of Columbia. Mr. Jacobs was most receptive and has arranged a meeting with the St. Stephen's program staff to further explore their eligibility for commodities. We have been assured that everything possible will be done to accommodate St. Stephen's program needs.

Please let me know if we can be of further help.

Sincerely,

JOHN W. BODE,
Deputy Assistant Secretary, Food and Consumer Services.

Mr. BODE. In summarizing my testimony, I would like to point out that when this administration took office, we inherited programs with one of the most rapidly increasing rates of growth of all Federal programs.

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[1] See p. 55 for the prepared statement of Mr. Bode.

Through the seventies these nutrition assistance programs grew faster than virtually any other part of the Federal Government.

Some significant changes have been made in the programs since this administration took office. They have been judicious changes calculated to reduce the rate of growth in the programs while continuing to serve those in greatest need.

You, and other members of this committee, worked long and hard to be assured that those goals were attained in modifying the programs, and I think you were very successful in it, and we were pleased to be a part in assisting you.

Even with these changes, though, Mr. Chairman, the cost of food assistance programs will have doubled between 1977 and 1983. Since this administration took office, the cost of Federal food assistance programs has grown by 34 percent.

Currently, we're spending $17.5 billion in direct assistance, and we're also providing $1.1 billion in our special dairy distribution and bonus commodity donations, for a total of $18.6 billion.

The Federal Government currently subsidizes, in whole or in part, approximately 95 million meals per day. The WIC program has grown tremendously. Participation for the first quarter of this year is 20 percent greater than in the comparable period last year.

Since President Reagan took office, the food stamp program's average per person benefit amount and the maximum allotment in the food stamp program have grown faster than food price inflation.

Almost 1 in 10 Americans receive food stamps as you well know, Mr. Chairman, and a greater percentage of school lunch program dollars are dedicated to providing meals for children from low-income families now than before.

Indeed, we've increased the subsidy for meals served to children from low-income families. Additionally, we've exercised discretionary authority to distribute cheese, butter, nonfat dry milk, cornmeal, and rice to low-income households.

We feel that the changes that have been made in the nutrition assistance programs have been very good. However, further refinements are needed in the programs. First of all, in describing our proposals to you, Mr. Chairman, I would like to note that the administration's proposals for modifying food assistance programs are consistent with the Government-wide plan to delay cost-of-living adjustments by 6 months.

This does not constitute a reduction in benefits. But is only a delay in implementing scheduled changes. We project that the currently scheduled October adjustment would raise a four-person household's benefit allotment by only about $1 a month.

So, this delay in increase is certainly not going to result in hardship.

Mr. Chairman, like you, we're very concerned about the food stamp program; specifically we're concerned about the many complications in the administration of the program.

These complications have greatly increased the amount of error. Our food stamp quality control system indicates that approximately 10 percent of program benefits are overpaid, or issued to ineligible participants. That means that we're wasting $1 billion a year in the food stamp program.

Our primary goal in the food stamp program legislative proposal for this year was to simplify and streamline the program. I think it's important to note that 80 percent of the fiscal year 1984 savings the administration is proposing will come by reducing misexpenditures, rather than by reducing recipients' benefits.

To do this, we propose to revise and simplify the program system of deductions. First, we would establish a standard shelter deduction of $140, adjusted April 1 of each year. It would replace the existing standard deduction and the itemized excess shelter expense deduction and would save $125 million in erroneous payments. That's $125 million in payments made in error, not reductions in benefits. Second, we would replace the itemized earned income deduction with a standard earned income deduction, set at $75 monthly per full-time worker. The deduction for part-time work will be consistent with AFDC standards for each State.

Third, we would retain the dependent care deductions so that households who need to pay for child care in order to work could claim up to $115 a month as a deduction.

These proposals will help the food stamp eligibility worker by eliminating 1 of 5 possible deductions and 6 of 10 computations. As a result, both errors and administrative burden would be reduced.

We have a chart, Senator, that summarizes what I've said already. The point that I want to make is that each time something has to be done in certifying a household for the food stamp program, that increases the amount of work that has to be done for all of those households, and increases the chance that error will result and there will be waste as a result.

[The chart referred to above follows:]

Simplified Household Definition

Current System	Proposed System	Results
• Requires 10 decisions	• Requires 4 decisions	• Reduced error • Reduced administrative time • Saves $60 million by consolidating households

- Household consists of those who live together
- Maintain elderly/disabled exemption

Mr. BODE. Our proposals would cut down the number of deductions from 5 to 4 and reduce the number of computations that caseworkers have to make from 10 down to 4. That's why we're going to see savings in terms of reduced error. It's because the program will be simplified. It will be easier to certify those households.

Another proposal along this same line is to establish categorical eligibility for food stamp households that are AFDC only households.

In other words, eligibility will be automatic where the people in the households getting food stamps are all receiving AFDC also. This will simultaneously reduce error and free up staff time to be devoted to more error-prone cases.

For AFDC only households, we would replace individual determinations of benefit levels with the simplified benefit determination based on average food stamp benefits for AFDC households in each State.

The benefits of average households would be unaffected by this proposal, which would save $70 million in fiscal year 1984 through simplification and error reduction; 25 percent of the food stamp caseload, Senator, is AFDC only households. So, 25 percent of the food stamp households would fall into this simplified process.

Our proposal to consider persons who live together as one household for food stamp program purposes would save an estimated $70 million in fiscal year 1984. Establishing and verifying who lives together is easier than determining who purchases and prepares food together.

Categorical Eligibility and Simplified Benefit Determination for AFDC Households

Current System	Proposed System	Results
Obtain information on: • Household composition and other nonfinancial requirements • Income • Resources (except in states with categorical resource eligibility) • Medical expenses • Shelter expenses • Dependent care expenses Determine whether gross and net income limits are met. Calculate benefit amount	• Determine whether all household members receive AFDC • Determine household category (with or without earners, elderly) • Standardize benefit amount	• Reduced administration time • Reduced error • Reduced recipient reporting burden • Saves $65 million by reducing error • *Average benefit by household type unchanged*

This proposal would eliminate 8 of a possible 10 decisions for the food stamp caseworker, which once again just ties back into the same old concern of program complexity. Furthermore, it will eliminate certain cases of abuse. Unrelated recipients can now manipulate rules, and gain higher benefits by filing as separate households; requiring all individuals living together to file as a single unit would end this abuse.

Fiscal year 1984 savings would be increased by $90 million by a proposal that I know you think a great deal of, Senator, and that's to require certain able-bodied persons to work in community work experience programs—CWEP.

We believe that a community work experience program provides a benefit to recipients in the form of valuable job skills and work experience. It encourages the transition to economic independence of those people in community work experience programs, or workfare, to get into gainful employment more quickly. It also fosters an equitable system by requiring work of those who can work.

Our proposed changes for fiscal year 1984 will increase the State's opportunities to reduce errors, Senator. An additional incentive is needed, however, to reduce State errors from their unacceptably high levels.

Since food stamp funds are exclusively Federal dollars, States lack a strong incentive to improve administration at this time. We propose to establish State liability for the value of eligibility, or overissuance errors above a 3-percent-tolerance level.

This will save an estimated $423 million in fiscal year 1984. The administration's proposal to revise the error sanction system provides a stronger incentive for error reduction. It places fiscal responsibility for incorrect eligibility in benefit determinations with those who are in a position to take corrective action.

It also conforms the State tolerance level with that of the AFDC and medicaid programs.

Senator, we have a chart on this, too, that I think will help put the error rate proposal in context.

The top line, the total bar, represents the current projections for food stamp program error rates. The white part of each chart shows how those error rates are projected to change with the adoption of the administration's proposals to simplify the program.

The black level shows the 3-percent-tolerance level we recommend the Federal Government remain responsible for. However, we feel that as in the AFDC and medicaid programs, the State should be responsible for errors above that 3-percent-tolerance level.

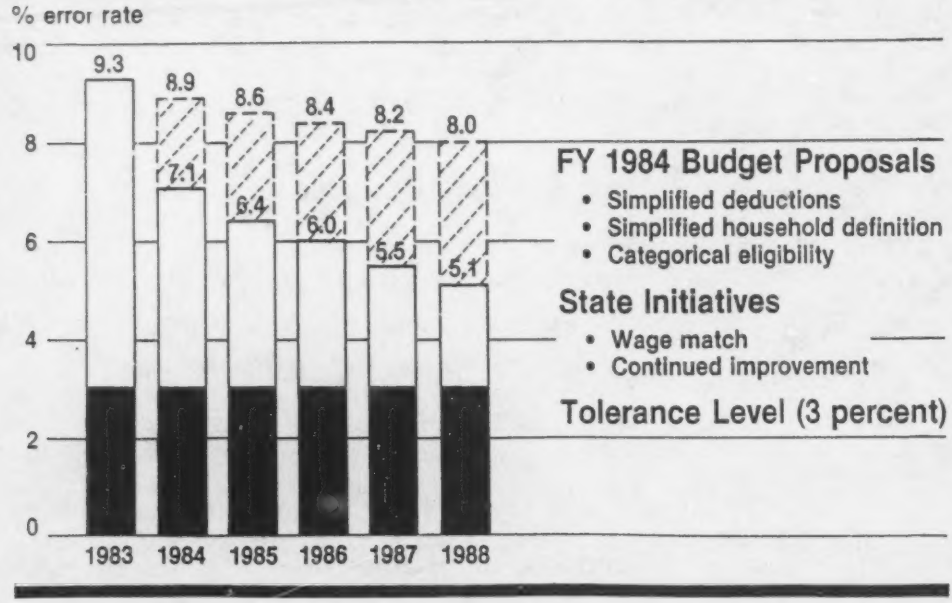
The CHAIRMAN. What about the diagonal lines?

Mr. BODE. The part of each chart with diagonal lines, sir, the total bar, represents the projected error rates for the food stamp program without changes. You can see how the part with diaonal lines is actually the change that these proposals are projected to make in State error rates.

The CHAIRMAN. I see.

Mr. BODE. In the child nutrition program, Senator, we also have legislative proposals. The biggest one in that area is for the establishment of a general nutrition assistance grant. The proposed gen-

Projected Impact of FY 1984 Budget On Error Rates



eral nutrition assistance grant of $535 million is designed to simplify program administration for State agencies by consolidating funds expended in the summer food service, school breakfast, and child care food programs.

In developing the fiscal year 1984 budget, we considered proposing incremental changes to the three categorical programs which are to be replaced by the general nutrition assistance grant.

Clearly, there are problems with these programs as they are currently structured. For example, data from a recent study in the child care food program shows that funding for family day care homes is very poorly targeted. Under the current program structure, we would expect to spend $115 million on family day care meals in fiscal year 1984. Data indicates that over three-fourths of the meals go to children over 130 percent of poverty level, and nearly two-thirds of the meals served in this program go to children from even higher income families that earn over 185 percent of the poverty level. That is just not the sort of targeting of scarce Federal resources that we feel must be done, Senator.

The CHAIRMAN. Could you state for the record what the poverty level is?

Mr. BODE. Senator, 130 percent of the poverty level is about $12,000 per year for a family of four. Of course, it varies by household size; 185 percent of the poverty level is approximately $17,000 a year for a family of four.

The poverty level itself is $9,300 a year for a family of four.

The CHAIRMAN. So a family of four with an income of $9,300 a year——

Mr. BODE. Is 100 percent of the poverty level, sir.

The CHAIRMAN. Right.

Now, what percentage did you say are at the 130 percent of poverty?

Mr. BODE. In family day care over three-fourths of the meals are served to children coming from households with income above 130 percent of the poverty level. And two-thirds of the meals are served to children coming from households with income above 185 percent of the poverty level. Of course, the first fraction includes the second.

The CHAIRMAN. In other words, they just serve the meals without any means test or whatever?

Mr. BODE. Yes, sir.

Of course, you probably remember the summer food service program is another program in need of substantial revision, Senator. Through legislative and regulatory changes that I know you've had a strong hand in, the program has been improved. But problems remain.

For example, most program sites allow any child who shows up to receive free meals which are totally subsidized by the Federal Government. The only requirement is that the site operate in an area where over half the children are below 185 percent of the poverty level. Once again, we go back to that $17,000 a year income for a family of four.

Finally, Senator, the school breakfast program, which is well targeted to low-income students, but it has problems of another sort. It does not appear to be delivering the nutritional benefits that we had all thought.

A recent national study of the school nutrition programs gave very high marks to the lunch program in terms of nutritional benefits. However, it found the school breakfast program to be wanting.

The CHAIRMAN. Why is that?

Mr. BODE. Senator, the nutritional benefit from the school breakfast program is pretty well limited to the milk related nutrients: calcium, vitamins A and D.

Otherwise, the benefits just aren't there. They are not coming through. Mr. Braley may be able to elaborate on that study.

Mr. BRALEY. In essence, Senator, the study shows that school breakfast, except for the milk related nutrients was not better nutritionally than breakfast the children of various income strata received from other sources at home, or from other places.

So, it's driven largely by the meal pattern used in the program. It doesn't appear to deliver a lot of nutritional benefits.

The CHAIRMAN. For the record, can you give me a typical menu for breakfast?

Mr. BRALEY. A typical menu can range from a half pint of milk, some fruit juice and some kind of a bread item. There's a convenience breakfast that was designed for schools to use that didn't have sufficient equipment. It included a half pint of milk and what we call a grain-fruit product, which is a fortified item. It's really not a very elaborate meal pattern.

The CHAIRMAN. Is it the lack of facilities for preparation that prevents, say, eggs from being served?

Mr. BRALEY. That and the cost. Initially it was the lack of preparation facilities in a lot of schools that served low-income children that argued for a fairly simple and inexpensive meal pattern to be

used in the program, and, unfortunately, it just doesn't deliver the nutrition that we thought it would.

The CHAIRMAN. What would you have to serve to deliver the nutrition that would be desirable?

Mr. BRALEY. A much expanded meal pattern. Requirements for protein items which are expensive, and many schools wouldn't want to incur the labor costs associated with producing such a breakfast.

It could become very expensive.

Mr. BODE. Of course we feel, Senator, there are good breakfasts served at home in many cases, and since the children are coming from home in the morning, it would be best if the breakfast were received at home and these moneys would be targeted in other ways.

The CHAIRMAN. Well, I tell you, this place where we are sitting right now is a nutrition basket case. I saw three or four young ladies on my way here this morning, coming from the Dirksen Building to the Russell Building, and they had their little boxes, and I always look to see what they're eating. They've got a sweet roll and some coffee, black coffee. So at least you're doing better than the employees of the Senate do for themselves.

Mr. BODE. I wish they'd drink some milk and help with the surplus.

The CHAIRMAN. I do, too. I fussed at a Senator from a dairy State the other day when we were having lunch. I doused my coffee with cream and passed it to him; he said no, I don't use it. I said I'm going to report that to your folks back home. Go ahead.

Mr. BODE. Senator, we gave serious consideration to proposing modifications in these programs to address the problems that we talked about and others that exist with them.

However, we thought it made more sense to allow States the flexibility to tailor programs to the needs of their localities through a general nutrition assistance grant.

Quite simply, we felt the States were in a better position to determine what the needs were for the people in their respective States and to tailor the programs to best meet those needs.

Another proposal in the child nutrition program area, Senator, is for new eligibility verification initiatives. In an effort to reduce error and deter fraud, the Department is proposing to transfer income eligibility verification functions for school meals to food stamp offices, or, if equally capable, to be retained by the schools.

There are a variety of ways in which this could work. In general, the application process for food stamp households, which represent two thirds of those receiving free or reduced price meals, would be more simple. A more thorough review of the applications from a sample of nonfood stamp households can be made, and the verification that will take place may be completed by well-trained-professional staff from the food stamp office.

Food stamp offices would receive reimbursement for their services from enhanced State administrative expenses. This proposal will supply needed relief to school administrators in our school systems who are currently responsible for income verification.

I'm concerned that our proposal is being widely misinterpreted, Senator. We are not proposing that children or their parents be

sent to food stamp offices to be certified to receive free or reduced price meals.

We intend for State and local school officials to take advantage of the eligibility verification expertise that exists in the food stamp offices.

Our proposal will allow States to design verification methods that best meet their needs using the resources of both the education and welfare systems.

The net savings in fiscal year 1984 will be about $21 million.

Another proposal is to create an independent reduced price subsidy level. Under current law, the subsidy for reduced price meals in the school lunch program is tied to the free meal rate. Consequently, it is overcompensated when an adjustment for inflation is made, and the reduced price meal rate increases faster than the rate of inflation.

We propose modification of this provision so that the reduced price subsidy would increase at the same rate as the Consumer Price Index food away from home component, that is the component that the school lunch program is generally indexed to. This proposal would provide increased equity in subsidies, and it would save $4 million in fiscal year 1984.

Additional savings would result in subsequent years.

We would eliminate the nutrition education and training program, Senator. That's a $5 million program. Funds for this program were provided as seed money for the States to start nutrition education programs. That job has essentially been done. Now that nutrition education programs have been established, decisions about their future direction and funding should be left to State and local officials, just as funding and priorities for other educational activities would.

In summary, I think you can see, Senator, the commonsense in this budget. It responds to the compelling needs for the reduction of unnecessary expenditures in order to limit a serious deficit.

We believe this legislative package is a positive effort to improve program operations at all levels of government. We very much look forward to working with you, Senator, and this committee. I would be pleased to try to answer any questions that you have.

The CHAIRMAN. Thank you, John.

I've been sitting here thinking, while you were presenting your testimony, we live in a time when we have—I despise this word—an attitudinal problem in this country.

For example, the withholding system itself has created in the minds of, I would say, most workers the conviction that what they earn is their take-home pay.

They don't count what has been withheld by their employers who are required to be tax collectors by the Federal Government. They don't consider that withheld portion income. Their take-home pay is what they make in their minds. That's their attitude.

Second, there is a natural predisposition to regard anybody as hard-hearted who suggests that programs involving the poor and the needy ought to be run efficiently.

I run into that all the time. They say well it's not anything but just, you're nickel and diming little children to death. It's not anything of any consequence. Well, it is of consequence.

You and I have discussed, for example, the duplication of cost in feeding children in school, and issuing food stamps to their families for them to be fed at home for the same meal.

I was criticized severely by some of the professional hunger people in North Carolina for wanting to starve children to death because I suggested that the overlap, that double dipping, as it were, was not fair to the taxpayers, and it's not fair to the people—the food stamp recipients whose children are not old enough to go to school yet.

Now, what is your estimate of that one feature, the overlap there? What is the cost of that? Still about $600 million?

Mr. BODE. Yes, sir, it's more than that. Of course, as you know, Senator, there are many ways that duplications can be taken account of. They range from 500 million to 1 billion dollars' worth of duplication depending on how the duplication would be stricken.

The CHAIRMAN. That's just that one aspect.

Mr. BODE. Yes, sir, that one aspect.

The CHAIRMAN. So we are talking about a minimum of a half billion dollars a year?

Mr. BODE. Yes, sir.

The CHAIRMAN. And that's that one aspect.

Mr. BODE. Yes, sir.

The CHAIRMAN. It's difficult for me to see how we are nickel and diming the children to death when we are talking about a duplication costing a minimum of a half billion dollars per year.

Now, how are you doing on rooting out the corruption in the food stamp program?

Mr. BODE. Senator, we think we're making good progress, but we must admit that there's still a very significant problem that exists. It's not only in the fraud associated with the program, the corruption, but also to a larger extent in the errors that are made, that are not necessarily a result of any corruption, but, instead, simple mistakes being made in a program that is very, very complicated.

As you know as well as any, this program has had new little fixtures added to it each of the past several years, and those little fixtures have made the program ever more complicated. As a result, we've seen the error rate in excess of a billion dollars now.

That's why we've moved to simplify the program. Now, as far as the actual fraud tbat exists, I honestly don't think we'll ever eliminate it, because there is always fraud potential in any program where signficant benefits are provided.

The CHAIRMAN. Which is so difficult to monitor.

Mr. BODE. Yes, sir. And, of course, there is no way to say how much fraud there is, because where we know of fraud we're moving against it aggressively.

The CHAIRMAN. You get an idea when you see a State senator regarded as one of the most popular State senators in the State of Maryland. What is he charged with? Ripping off the taxpayers about $70,000?

Mr. BODE. It's a trafficking case, sir

The CHAIRMAN. I don't want to labor the point, but let's go back to the duplicate meals, food stamps for the school children, plus the free meals at school, which you have estimated at a minimum of $500 million.

Now, what happens to the food stamps in a family in that category which are not used. Does that encourage trafficking?

Mr. BODE. Yes, sir, that would provide an incentive for trafficking. I think the most common response by a household in that situation would be the household—I guess the best way to go at this, Senator, is to remind you that in 1977 the food stamp purchase requirement was eliminated, and beginning in 1979 very few households received their total thrifty food plan value, or their total assumed food expenditure amount in food stamps. Instead the food stamp program only provides a supplement for other expenditures the household will make for food.

Now, in this situation, many households will respond by not supplementing their food stamp expenditures as much with their other earnings. They will simply spend their food stamps and not expend additional money which the program assumptions would lead us to believe would ordinarily occur.

But certainly, you make the good point that as that exists and other situations exist where the household's needs for the food stamps is not as great, there is an increased chance for trafficking.

I might say that I've got some numbers about how we are attacking the actual corruption in the food stamp program. We've increased our investigations by over 170 percent. In fraud hearings, the persons disqualified for fraud is up by over 130 percent.

Investigations that we're doing are up, as far as numbers of dollars involved, by over 154 percent. As far as the actual number of prosecutions, we've referred to prosecutors over 19,000 more cases for prosecution. So, I feel that we are moving aggressively to root out the——

The CHAIRMAN. How do prosecutors react?

Mr. BODE. They're doing a better job. They've increased the number of cases that are completed from 7,116 up to 8,984. So that's a 26-percent increase in the number of cases that are completed.

Of course, at that end of it, sir, there is quite a lag before we see all their increased efforts pay off.

The CHAIRMAN. Well, I suppose it's best you are still in the symbolic stage, judging from the cynicism that is still growing, from the mail we receive, and the comments,

Last night on the 60 Minutes program, they had a story about a shelter in Sacramento, Calif., where the cost of giving money to the poor had just gone through the ceiling. So they established a shelter with barracks-type facilities for sleeping, three square meals a day, air conditioning, television and so forth.

And—did you see this program?

Mr. BODE. No, sir.

The CHAIRMAN. I want you to know that already there is one of these lawyers stepping foward claiming that the constitutional rights of the poor are being violated because they're being deprived of money from the taxpayers' pockets, and instead being given a clearly monitorable facility. It looked mighty comfortable to me, having been in the Navy. I didn't feel there was any invasion of privacy in the sleeping facilities there. And the food, it was in living color on my television set, and it looked pretty good to me. It

looked as good as what Mrs. Helms served me last night for supper. Since she's not here, I'll say that with impunity. [Laughter.]

Mr. BODE. I'm sure that staff will take care of the record on that.

The CHAIRMAN. But the very idea of lawyers jumping in to claim violation of constitutional rights when, if it was Sacramento, or wherever it was, the governing body there just could not continue the other system, whereby the recipients received money and whatever, and stayed home. They came there for their meals and/or lodging, and they—one of the complaints was that they had to take showers together. Well, I was in the Navy 4 years, and I never thought anything was wrong with that. But maybe there was.

Well, let me ask you a few questions. You referred to the widespread impression that overall food stamp spending had been greatly reduced, which is not so. Just for the record, would you reiterate the cost of the food stamp program for the last 4 or 5 years, year by year, but particularly with respect to the fiscal years 1981, 1982, and 1983?

Mr. BODE. Yes, sir, I would be pleased to do that.

The CHAIRMAN. Why don't you supply that for the record and we can go ahead.

Mr. BODE. Yes, sir.

[The following material was subsequently received for the record:]

In fiscal year 1981 the program cost $10.4 billion and served 20.6 million people. In fiscal year 1982 costs were $10.8 billion and served 20.4 million persons. These numbers do not include Puerto Rico, which participated during fiscal year 1981 and the first three-fourths of fiscal year 1982. In fiscal year 1983 costs are expected to be $12 billion with 22 million persons. In fiscal year 1984 we estimate that the program will cost $11.6 billion and serve 21.54 million persons. All of these numbers assume that no changes are made to the program.

Mr. BODE. I wanted to say, though, Senator, that the food stamp program has grown a great deal more than most people realize. In terms of participation, for example, from 1980 to 1983 we've seen the number of people who receive food stamps increase from 19.3 million to over 22 million people. That does not include Puerto Rico because it was affected by a block grant. But there has been a good deal of growth in numbers of people served by the food stamp program as well as the actual number of dollars spent on it.

The CHAIRMAN. You mentioned the error rates, and your chart in that regard is very interesting. Can you give me the lowest error rates among the States and the highest error rates among the States?

Mr. BODE. Yes, sir. I can tell you right off the bat that the highest is Alaska. Mr. Martin is the person who does a good deal of work on this. Why don't you go ahead and elaborate for the Senator?

Mr. MARTIN. The highest—this is for the period, April 1981 through September 1981, the most current period that we have, and the error rate in Alaska which was the highest was 27.99 percent.

The CHAIRMAN. What's next?

Mr. MARTIN. I believe the next highest one, and I'm sorry I don't have these in priority order, but the next highest, I believe, is the District of Columbia 16.93 percent.

The CHAIRMAN. OK.

Mr. MARTIN. I believe at the low end is the State of Nevada at 3.65 percent.

The CHAIRMAN. Just as a matter of information—I'm afraid to ask, but where does North Carolina stand in this?

Mr. MARTIN. North Carolina is at 16.20 percent, and again that is for the period April 1981 through September 1981. The rates are computed on a 6-month period.

The CHAIRMAN. Sorry I asked.

[The following table outlines the error rates for each State for the period April 1981–September 1981:]

ERROR RATES BY STATE—APRIL 1981–SEPTEMBER 1981

Region and State	Percent of cases in error			Percent of dollars in error			Total
	Ineligible	Overissue	Underissue	Ineligible	Overissue	Underissue	
United States	4.92	13.04	7.46	4.61	5.14	2.38	12.15
Northeast:							
Connecticut	7.49	13.46	6.56	8.07	5.63	2.54	16.24
Maine	4.26	10.55	7.40	3.28	3.22	2.34	8.84
Massachusetts	7.22	11.79	5.04	6.24	4.08	1.45	11.77
New Hampshire	7.65	14.78	7.39	6.03	6.27	2.39	14.69
New York	6 93	13.27	8.91	6.84	5.55	3.33	15.73
Rhode Island	4.99	12.76	5.13	3.72	5.47	2.00	11.19
Vermont	6.38	8.41	5.22	5.88	3.11	1.57	10.56
Mid-Atlantic:							
Delaware	3.35	10.31	6.44	3.08	3.99	1.64	8.73
Dist. of Columbia	5.67	15.49	13.00	5.90	6.55	4.41	16.93
Maryland	8.92	12.75	6.67	9.64	5.03	2.07	16.74
New Jersey	4.94	11.23	6.21	3.75	5.07	2.39	11.23
Pennsylvania	5.82	10.90	5.49	5.40	3.26	1.93	10.61
Puerto Rico	4.12	19.81	7.46	2.90	4.85	2.07	9.83
Virginia	4.24	10.85	7.91	4.03	2.72	2.26	9.02
Virgin Islands	2.13	10.64	17.02	2.74	3.77	4.34	13.19
West Virginia	6.53	12.37	7.30	6.33	3.91	2.88	13.12
Southeast:							
Alabama	3.13	11.49	6.93	2.31	4.03	1.70	8.04
Florida	5.69	18.30	7.91	6.11	7.11	2.08	15.31
Georgia	4.91	18.91	7.48	4.32	6.09	2.05	12.45
Kentucky	3.74	12.65	7.47	3.10	3.46	2.20	8.76
Mississippi	5.23	15.17	9.52	3.77	6.58	1.25	11.61
North Carolina	6.91	14.68	11.49	5.33	7.50	3.37	16.20
South Carolina	4.10	15.21	7.86	4.71	4.94	2.55	12.20
Tennessee	5.86	16.15	7.45	4.71	6.13	2.35	13.19
Midwest:							
Illinois	4.05	10.48	6.80	4.46	3.54	3.44	11.46
Indiana	3.65	11.87	5.77	3.58	3.61	0.80	7.98
Michigan	4.67	11.53	9.95	5.71	3.53	2.63	11.89
Minnesota	2.14	9.51	4.94	4.01	4.52	1.54	10.10
Ohio	3.83	10.92	5.54	2.78	4.45	1.69	8.93
Wisconsin	5.61	9.69	7.94	5.59	3.89	3.71	13.19
Southwest:							
Arkansas	4.20	11.24	5.90	2.95	6.57	2.57	12.09
Louisiana	4.43	14.41	8.01	4.40	6.16	2.96	13.52
New Mexico	7.62	15.43	6.61	8.06	5.80	1.77	15.70
Oklahoma	3.87	7.00	5.19	3.84	4.95	3.12	11.91
Texas	3.84	14.31	6.28	4.51	5.09	2.31	11.91
Mountain Plains:							
Colorado	6.13	16.70	8.58	7.26	6.62	2.80	16.81
Iowa	5.84	10.71	6.01	4.22	3.68	1.35	9.26
Kansas	6.84	10.67	6.32	6.84	3.84	2.12	12.81
Missouri	3.75	11.71	7.33	3.65	4.60	2.10	10.35

ERROR RATES BY STATE—APRIL 1981-SEPTEMBER 1981—Continued

Region and State	Percent of cases in error			Percent of dollars in error			Total
	Ineligible	Overissue	Underissue	Ineligible	Overissue	Underissue	
Montana	6.10	12.88	9.49	5.91	5.68	2.67	14.34
Nebraska	7.02	10.53	7.99	8.52	2.50	1.87	12.89
North Dakota	8.23	6.33	7.59	3.79	2.04	1.49	7.32
South Dakota	3.30	12.45	6.59	1.95	4.23	1.63	7.82
Utah	4.74	8.98	9.23	3.49	3.82	4.16	11.50
Wyoming	5.10	12.10	2.55	5.40	8.03	1.19	14.62
Western:							
Alaska	20.47	16.37	6.43	20.19	4.73	2.73	27.99
Arizona	5.90	18.14	10.50	4.40	5.02	3.95	13.40
California	2.26	7.74	7.74	2.35	3.35	3.35	9.11
Guam	7.48	20.41	9.52	8.04	3.19	1.96	13.21
Hawaii	2.91	8.36	8.24	5.23	1.70	2.29	9.22
Idaho	5.76	11.53	6.34	6.25	4.04	2.02	12.42
Nevada	3.02	2.26	2.26	2.33	0.75	0.57	3.65
Oregon	4.97	12.36	5.88	6.26	15.09	1.33	22.68
Washington	3.13	9.40	4.74	2.92	20.41	0.17	23.52

Source: Food and Nutrition Service, U.S. Department of Agriculture.

The CHAIRMAN. The Congressional Budget Office indicates that the food stamp proposals passed in 1981 resulted in several million dollars less in savings during fiscal year 1982 because of inflation.[1]

Inflation was lower than CBO had anticipated, if you follow. Now, are you people taking into consideration the lower inflation rate in making your computations?

Mr. BODE. Yes, sir, our budget savings projections that we have given you today in our testimony do reflect the food price inflation we expect to take place in the coming months. Of course, CBO is absolutely right in that regard. Far fewer savings have taken place because of the changes that were made by Congress in the last couple of years, particularly with the delays in the cost of living adjustments.

The CHAIRMAN. At first glance, that seemed like an anomaly, but it's really not because you're dealing with hard figures.

Mr. BODE. Because of the low rate of inflation, Senator, we now see that the maximum allotment, the value of the thrifty food plan for a family of four has actually gone up faster than the rate of food price inflation. It's actually higher now than food price inflation would have it.

The CHAIRMAN. Why is that?

Mr. BODE. It's because of two quarters of food price deflation.

The CHAIRMAN. I see.

Mr. BODE. I think the food stamp household thrifty food plan for a family of four is $253 a month now, and according to the CPI it's $252.

The total program costs less than expected as well, of course, as the savings are also reduced.

The CHAIRMAN. We hear the lamentation that the budget proposal creating a general nutrition assistance grant would automatical-

[1] NOTE.—The CBO report referred to by the chairman is printed in its final form as an appendix to the hearing, see p. 45.

ly terminate child care food, summer food, and school breakfast meal services provided to children.

That is not correct, is it?

Mr. BODE. No, sir. There are $535 million there to be spent by the States in the manner that will best meet the nutrition assistance needs of the children in those States, particularly the low-income children. We've talked about problems in the current structure of programs, and we feel confident that the States can do a better job of tailoring these benefits to meet the genuine needs that exist. They can target those benefits to the low income, rather than have such a disheartening amount of the funds go to subsidized meals for upper income children.

The CHAIRMAN. As a matter of fact, that's precisely what you intended.

Mr. BODE. Yes, sir.

The CHAIRMAN. Then there's been the concern that the proposed 15-percent reduction in funds for the summer food, school breakfast, and child care food programs will not enable operators of the programs to provide meal service to needy children.

Now, with the creation of the general nutrition assistance grant, I assume there are adjustments in the programs that can be made by these operators.

Mr. BODE. Yes, sir. In fact, the way we determined the level of the general nutrition assistance grant was not by arbitrarily cutting a percentage of funds; but, by stacking up the incremental changes in the programs that we would propose, if the programs were to be retained. However, in looking at the series of incremental changes and then looking at the fact that we would still have a series of Federal programs, that just were not needed. We felt it was better to fund at the same level that we would propose, and give States the discretion in how to go about meeting those needs.

We feel there is sufficient funding in the nutrition assistance program.

The CHAIRMAN. We get the impression that there are some people who want to throw a monkey wrench in trying to bring these programs under control.

Mr. BODE. Senator, I think it goes back to the point you were making earlier. There's great dismay at any reduction in funding for these programs, no matter how the reduction is made.

There was great complaint about the changes that were made in the school lunch program. We heard on and on about the cuts in the school lunch program.

In fact, the significant reductions were in subsidies for meals served to children coming from households with incomes above 185 percent of the poverty level.

The parents of those children should be paying for a greater portion of their meals. Of course, in the school lunch program, over $440 million a year is still paid for subsidies for that group.

The CHAIRMAN. 185 percent of poverty. $17,000.

I wish there were some way to have a national referendum on your proposal with the facts clearly understood.

$17,000 a year is a pretty good income in a number of States, and certainly in mine in various areas.

Well, a lot of these people who complain so much remind me of the fellow who murdered his mother and father and then asked for mercy from the court because he was an orphan.

I don't suppose there's any way to have a broad perception of what is really being proposed and what the present situation is.

But we've got to keep trying.

Mr. BODE. There is such a complex set of programs.

The CHAIRMAN. Such an enormous program.

The same thing happens to social security. Fellows down there on the Senate floor, they said well, $8, $12, $15 a month, that's not much money. But when it runs out the other end of the funnel, it's easy to see what's happened to the social security program.

Bob Dole very accurately talks about the automatic escalation. But what the public hears from the major news media is the few dollars per person. But they never hear about the total cost.

Sort of like the overlap in the food stamps and school lunches. I bet you not one tenth of 1 percent of the people in this country would guess that that's costing a half billion dollars a year.

Well, I think you're correct that the proposal to transfer income verification for school meals to local welfare offices has been misunderstood.

But let's talk about the mechanics of this income verification. Would it require parents applying for free lunches to make a visit to the local welfare office?

Mr. BODE. No, sir; I appreciate you raising that point. It most certainly would not. We don't envision any children or any parents having to go to welfare offices for school lunch, free or reduced price eligibility.

What we envision is applications being returned to the school just as they are now. The applications then would be sorted and a sample of them would be sent to the welfare office and verified.

The CHAIRMAN. There's no demeaning of anybody, then.

Mr. BODE. That's correct, sir. No one has to go to the welfare office.

The CHAIRMAN. The paperwork is done at the food stamp office.

Mr. BODE. Yes, sir. A large percentage of these applications are for the free category and if they're eligible for free school lunches, they're eligible for food stamps, generally speaking. So it would actually simplify that process, and would help address the problem, and there has been a problem in the school lunch program.

You know, a series of 1980 inspector general audits found in excess of 25 percent—I seem to recall 26 to 29 percent, of the meals served in the free or reduced price category were ineligible. They were inappropriately subsidized.

The CHAIRMAN. What's your budget request for WIC?

Mr. BODE. It's $1.06 billion, which is the same level as the WIC program is funded at in the Food and Agriculture Appropriation Act of 1983.

The CHAIRMAN. Are you confident this will take care of the most needy?

Mr. BODE. Yes, sir; the WIC program has a series of priorities so that those applicants who have the greatest need can be certified and receive the benefits of the program before those of lesser need who still meet the income eligibility criteria. Thus, benefits can be

targeted to be sure that those of greatest need are provided benefits, once maximum caseload has been reached.

And that's the way the program was designed to work. It's a grant in aid program rather than an entitlement program. I don't think there was ever an intention that everyone who met the eligibility criteria in its simplest terms would be served.

The CHAIRMAN. The Department released a statement not long ago indicating that the food prices are what, 2 percent higher than a year ago? Is that correct?

Mr. BODE. I'm sorry, sir.

The CHAIRMAN. Well, let's assume that's correct.

Now, is it possible when any time when the food prices would be declining that the cost of living delay would artificially benefit the school lunch program?

Mr. BODE. Yes, sir. The school lunch program, as I earlier referenced, is indexed to the food away from home component of the Consumer Price Index. Now, that's a much more expensive part of the Consumer Price index for food than food at home, because it includes a good deal of labor. It's basically restaurant costs. And that is the part of the CPI that the school lunch program is indexed to.

It's possible that the delay could benefit. If an index took place immediately in the food stamp program, benefits would actually go down because food price inflation as measured by the Consumer Price Index is actually below the current level of the thrifty food plan.

The CHAIRMAN. Let's talk about dropouts. I've heard a number of declarations that children have dropped out of school lunch programs as a result of that 1981 change of reconciliation. I also hear that most of this perceived dropout is a result of eliminating the high tuition schools. Is that so?

Mr. BODE. Well, sir, elimination of the high tuition schools has certainly been a factor and there are other factors as well. For example, I believe the reduction in school, or the decrease in school enrollment is something like 1.3 million people from 1981 to 1983. So if school enrollment is down by 1.3 million and about 55 percent of the children in school receive school lunch, then if you just play those figures out directly, you can see that about a 700,000 reduction in school lunch participation would be expected because of reduced enrollment alone.

The CHAIRMAN. So they haven't dropped out. They just haven't been born.

Mr. BODE. Yes, sir; the elimination of high tuition schools and the reduction in enrollment are two big factors in accounting for reduced school lunch participation.

We shouldn't look at the reduced participation numbers and assume that that's because children have been thrown off the rolls as some would lead us to believe.

The CHAIRMAN. You said, I believe, in your prepared statement, that the WIC participation recipients—this is going up?

Mr. BODE. Yes, sir. That's, of course—the WIC program has, unfortunately a roller coaster effect in its participation at times. What I did in my testimony was compare the number of recipients in the first quarter of this year with the first quarter of last year. I

thought that was a more valid way to compare participation numbers and show that the program is, indeed, growing at a rapid rate.

The CHAIRMAN. How many of the participants are those in what you call the highest priority, that is pregnant women, breast-feeding mothers, and infants and so forth.

Mr. BODE. Sir, Mr. Braley has a good deal of expertise in this program. I would like for him to help me if he could.

Mr. BRALEY. Senator, we keep statistics broken out by women, infants, and children, and for some time the women component, which is primarily pregnant women, but there are some postpartum women on the program as well, has been running at about 25 percent of the caseload.

Infants run about another 25 percent of the caseload, and in general, the older children, ages 1 through 5 that are eligible for the program, constitute about half of the WIC program.

In general, these older children are the groups that are in the lower priority categories. I think it's safe to say that the very highest priority categories make up roughly half of the WIC participation. Perhaps less.

The CHAIRMAN. You aren't trying to do anything to hold that down?

Mr. BRALEY. No. In fact we're encouraging States, as we have for some time, to put the highest priority people on the program first, and to the extent that funding is available, deal with the lower priority groups.

Some States have done a very effective job in that. Others less so.

The CHAIRMAN. One final question. Back to food stamps. We went up and down the road in this committee on photoidentification of recipients. How are you doing with that?

Mr. BODE. Well, Senator, we have issued our final regulations for photoidentification requirements. That is, it applies to the largest areas, principally, I think 16 cities. Several cities have been granted waivers from the photoidentification requirement, Senator, because they quickly moved on other systems that were, for various reasons, a little more cost effective in preventing the sort of program abuse that photoidentification cards prevent.

So, though the photoidentification cards have not actually been required in all of those 16 cities, the requirement has been most helpful, because even in those cities where the card was not required to be issued, other actions were taken which prevented the kind of program abuse that the photoidentification card is effective in stopping.

The CHAIRMAN. Is the inspector general as optimistic about that as you are?

Mr. BODE. I think he's optimistic about the photoidentification card. I hesitate to speak for him too much on this subject, because I think he's a little frustrated that it is not required more widely. We plan to revisit that issue, Senator, and see if an extension of the photoidentification card requirement is appropriate.

The CHAIRMAN. Is this also an electronic card? Is it foolproof? Can it be duplicated?

Mr. BODE. The photoidentification cards that are now in use are not electronic to the best of my knowledge. Of course, we are pursuing. We have pilot projects, exploring the possibility of electronic

food stamp systems. These alternative issuance systems we're working hard to be sure they're not off in never-never land, but things that can be brought on line fairly soon, and maybe it would be good if Mr. Martin elaborated on that.

Before he does, I would like to say, it is a good possibility photo-identification cards in the future can be made consistent with the electronic issuance systems, carry the magnetic tape on the back, or the microchip that's characteristic of the smart cards.

Sir, that is a strong possibility for the near future.

The CHAIRMAN. Grocery chains already have the hardware to stick a card in and tell whether a check has got a sufficient balance.

Maybe if you tie in with that.

Mr. BODE. Yes, sir, that's the sort of thing we are looking into.

Mr. MARTIN. I was just going to add specifically related to the photo-I.D., there are several cities, one or two, that have the photo-I.D. tied into an electronic issuance system, such as Wayne County-Detroit, Mich. They have an automated system that requires a photo-I.D. that feeds into the system in order to get your stamps.

With respect to the majority of the photo-I.D. cities, though, it's a standard type of photo-I.D. The quality varies with the different companies that we have.

I might add also that we have asked our regional offices recently to follow up with those cities to see what kind of concrete results we've achieved as a result of those.

The mandatory photo-I.D. for food stamp households in certain areas was not implemented until November 1, 1982, so we only have about 5 months' experience with a number of the cities.

The CHAIRMAN. Delay in processing food stamp applications. What is your average turnaround time?

Mr. BODE. Sir, about 10 days is the time it takes. Of course, it varies by State and locality to some extent, but on the whole, it's about 10 days from the time that an application is made until it is processed and all, and benefits are received.

Of course, the expedited service provision in the food stamp program requires that benefits for those who are in dire need, receive benefits within 5 days.

We have had problems with that provision, as you may recall, in that some States have actually allowed 60 percent of their caseload to be treated as expedited services. And while expedited services may speed the processing requirements for individual households, when it's such a broad part of the food stamp population that is included in that system, it becomes very disruptive to the processing of all the applications and actually slows down the processing time for other food stamp households.

The CHAIRMAN. The overissuance and the expedited aspect, is this counted in the error rate?

Mr. BODE. Well, sir. That's one of the big problems. The expedited service cases are not included in computing the quality control error rates. That's one of the reasons I think some States have felt an incentive to include more cases in the expedited service category.

The CHAIRMAN. I would think so.

Mr. BODE. So it's a problem we have and it's one that we're moving to address.

Maybe Mr. Martin could elaborate, and at least correct me if I have mispoken in that regard.

Mr. MARTIN. No; that's correct. With respect to expedited services, in order to move the case along, the States are mandated to verify only one or two things within that 2-day period.

So the expedited service cases are considered in the quality control rate only if an error is made in those one or two elements that they are required to verify.

If an error is made in any other type of information that the recipient is required to provide, we don't hold the State accountable for an error in that instance, because we didn't require them to verify it, No. 1, nor No. 2 was there sufficient time.

So, the case is included in quality control only with respect to those one or two elements that they are required to verify.

The CHAIRMAN. I keep asking the last question. This will be the last one. Why is Alaska so much higher in this error rate than other States?

Mr. BODE. Well, sir, I hate to get into a situation where I am sitting here saying too many critical things about Alaska. I think they are the best ones to explain why in the world their error rate is so outrageously high.

I don't know a way in the world to explain it, Senator. Maybe Mr. Martin can.

Mr. MARTIN. I'm not sure I can explain it adequately, because we're not satisfied with it. Part of it, I think, Senator, is related to the very rural nature of that State, and the fact that they use fee agents, and sometimes it's pretty difficult to get the current information out and provide them the necessary types of training.

The State of Alaska wants to train some of their people or their fee agents in terms of issuance or things of that sort. It's very difficult to pull them all together. We have mounted some intensive technical assistance with the State of Alaska. I think in the one period I quoted you a 27-percent error rate. I believe in the ensuing period, the tentative figures indicated an error rate of 21 percent, which, obviously is not acceptable, but it's come down 30 percent or so in one 6-month period.

So there is not a real clear understanding of why that error rate is so high. The State is being pushed very hard to improve.

The CHAIRMAN. Do they have photoidentification there?

Mr. MARTIN. No.

The CHAIRMAN. That would help them, wouldn't it?

Mr. MARTIN. On the issuance it might. The error rate really is involved in the certification by the eligibility workers.

The CHAIRMAN. Well, gentlemen, I thank you very much. I kept you longer than I intended, but I think it's important to get on the record so it can be available for anybody who is interested what the situation really is as contrasted to what some of the major media say it is and what some of the vested interests in these programs say.

But I thank you for coming up, and it may be that Senators who aren't able to be here this morning will want to file some questions

in writing in which case I would ask that you respond as quickly as possible.

Thank you, very much.

[Whereupon, at 12:06 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

Statement of Hon. Bob Dole, a U.S. Senator From Kansas

Mr. Chairman, last week the nutrition subcommittee held hearings on the "Nutritional Status of Low Income Americans in the 1980's." We heard testimony from those who have been active in academic research in this area and those who work at the local level in contact with the real problems of families and individuals who are more than familiar with the effects of this prolonged economic recession.

The food stamp program has undergone budget reductions of over $7 billion during a three-year period of fiscal year 1982 to fiscal year 1984. Similarly, child nutrition programs have been cut by over one-third as a result of the omnibus reconciliation bill of 1981. The issues before us this year require us to assess larger priorities. There are many larger and more expensive entitlement programs that have remained untouched by the budget ax over the last two years. Before we consent to further spending reductions in Federal nutrition programs, we should make certain that all programs receive equal treatment and close scrutiny.

While some further reforms and administration streamlining measures may be charted, we must make certain that, at a time when more and more people are depending upon program benefits, we do not unintentionally endorse further benefit reductions in the guise of administrative reforms. The congressional budget office has just about completed its evaluation of the impact of the administration's fiscal year 1984 budget proposals. Before we consider policy options available to us, we should have a firm understanding of what the implications are. The growth of these programs has been slowed, but we need to make certain that we restrain expenditures in ways that will not have a serious impact on low-income Americans whose diet depends upon thrifty food plan benefits.

With regard to child nutrition programs, I believe that the Federal Government should maintain primary responsibility in this area. There needs to be some guarantees of standard nutrition benefits to our Nation's growing children. Their development and learning potential are directly related to the kind of nutritional input they receive.

This Senator is pleased that there are no major changes proposed for the WIC program. As the administration is aware, this program has strong bipartisan support in the Congress, and, if any program spends its dollar wisely, this program has certainly proven its cost-effectiveness. I just wish that all the Federal nutrition programs had such a commendable track record.

JESSE HELMS, N.C., CHAIRMAN
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HOWELL HEFLIN, ALA.

United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, D.C. 20510

April 14, 1983

Honorable Jesse Helms
Chairman
Committee on Agriculture, Nutrition,
and Forestry
United States Senate
Washington, D.C. 20510

Dear Jesse:

I regret that I was unable to attend the full Committee hearing on the Administration's budget proposals for the Food and Nutrition Service programs.

In that regard, I would like to request that the attached CBO preliminary analysis of selected Food Stamp Program changes proposed in the President's 1984 budget be included as part of the hearing record.

Sincerely,

Walter D. Huddleston

Walter D. Huddleston

Attachment.

PRELIMINARY ANALYSIS OF SELECTED FOOD STAMP PROGRAM CHANGES PROPOSED IN THE PRESIDENT'S 1984 BUDGET

The Administration has proposed several changes in the Food Stamp program that would affect the levels of benefits received by participants. This memorandum--prepared at the request of the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition of the House Committee on Agriculture--presents a preliminary analysis of the effects of certain of these proposals on average benefit levels of all program participants and selected categories of participants.

In general, the proposed changes would result in an average benefit reduction in fiscal year 1984 for all food stamp households of $5.55 per month, or 4.9 percent of the benefit that would be expected under current policy. Some households, however, would gain under the proposal and some would lose.

This analysis presents estimates of the proportions of gainers and losers among recipient households, and the average amounts that would be gained or lost. It also includes a technical appendix describing an estimate of the effects of one of the proposed changes--eliminating the excess shelter deduction--on the rate and amount of benefit payments made in error.

THE CURRENT PROGRAM

The Food Stamp program currently provides benefits of about $120 per month to 8 million households in the 50 states, the District of Columbia, Guam, and the Virgin Islands. To be eligible to participate, a household must have a net monthly income below 100 percent of the federal poverty level. Households without elderly or disabled members must meet the additional criterion that their gross monthly incomes not exceed 130 percent of the federal poverty level. Households must also meet resource tests and comply with work requirements to be eligible to participate.

Net income is gross monthly income less certain deductions. All households receive a "standard deduction," which currently is $85 per month in the 48 conterminous states and the District of Columbia. Households with earnings receive an earned income deduction equal to 18 percent of gross earnings. Households with dependent care expenses can deduct these expenses when they are necessary for a household member to accept or continue employment or training. The amount of the dependent care deduction is subject to a limit, currently $115 per month in the conterminous states and the District of Columbia. Households with elderly

or disabled members can deduct certain medical expenses incurred for those members to the extent that the expenses exceed $35 per month. The final deduction is the excess shelter deduction, which equals the amount to which allowable shelter costs exceed 50 percent of monthly household income after all other applicable deductions have been applied. For households with no elderly or disabled members, the combined total of the excess shelter deduction and the dependent care deduction is subject to a limit. That limit is currently $115 per month in the conterminous states and the District of Columbia. Annual cost-of-living adjustments for the deduction limits and the standard deduction are scheduled to begin in October 1983.

Food Stamp benefits are determined by subtracting 30 percent of the household's net income from maximum allotment levels. Maximum allotment levels are specific to each household size and are adjusted each October to reflect changes in food prices occurring during the 12-month period ending the preceding June. A minimum benefit level of $10 per month applies to households of one or two persons.

The cost to the federal government of the Food Stamp program is affected by economic conditions: levels of unemployment affect participation levels, while price changes, particularly food price changes, affect benefit levels. The Congressional Budget Office (CBO) estimates that the federal cost of the program if current policies are continued will be $11.4 billion in fiscal year 1984, rising to $13.0 billion in 1988 (see Table 1).

TABLE 1. CBO CURRENT POLICY BASELINE FOR THE FOOD STAMP PROGRAM (By fiscal year, in millions of dollars)

	1984	1985	1986	1987	1988
Budget Authority	11,425	11,725	12,340	12,710	13,040
Outlays	11,425	11,720	12,335	12,705	13,035

SOURCE: Congressional Budget Office.

THE ADMINISTRATION'S PROPOSALS

The proposed changes discussed in this memorandum are:

- Replacing the current earned income deduction with a fixed $75 monthly deduction for households with full-time workers and lesser amounts for households with part-time workers.

- Eliminating the excess shelter cost deduction.
- Increasing the standard deduction to $140 per month.
- Separating the dependent care deduction from other deductions and setting the maximum permanently at $115 per month.
- Revising the definition of household so that all persons living together would be considered as one food stamp household. An exception would be made for elderly persons who purchase and prepare food separately.
- Delaying for six months the cost-of-living adjustment currently scheduled to occur each October.

In addition, the Administration has proposed that states require most employable recipients to perform work in order to remain eligible for food stamps--the "community work experience" program, or workfare. States currently have the option to establish such programs. It has also proposed to limit the federal liability for erroneously issued benefits to 3 percent of the total issuance in each state. States with overpayment error rates in excess of 3 percent would be made responsible for the excess. This memorandum does not discuss these proposals, both of which would reduce federal Food Stamp program costs.

CBO estimates that the Administration's proposals would reduce federal spending on the Food Stamp program by about $1 billion in fiscal year 1984 and by about $5.4 billion over the 1984-1988 period (see Table 2). CBO has not yet, however, been provided with the proposed legislation covering these proposals. The estimates and descriptions in this analysis are based on current information and are therefore subject to later revision.

Change in the Earned Income Deduction

This proposal would change the current earned income deduction, which now equals 18 percent of gross earnings, to a fixed deduction of $75 per month for full-time workers and to a prorated deduction for part-time workers. This change would result in reduced benefits for households with earnings. Households with full-time workers would experience the greatest reductions. The savings to the Food Stamp program from this proposal are estimated to be $145 million in 1984 and $822 million over the five-year period.

For purposes of the estimates presented in this memorandum, it was assumed that a household had a full-time worker if household earnings equaled 30 or more hours when valued at the federal minimum wage. For

TABLE 2: ESTIMATED REDUCTIONS IN FOOD STAMP PROGRAM SPENDING RESULTING FROM CHANGES PROPOSED IN THE PRESIDENT'S BUDGET (By fiscal year, in millions of dollars) a/

Proposed Change	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
Change in the Earned Income Deduction	145	153	165	175	184	822
Changes in the Standard, Excess Shelter, and Dependent Care Deductions	220	206	199	194	165	984
Change in the Definition of Household	55	70	70	70	70	335
Six-Month COLA Delay	105	390	465	345	305	1,610
Mandatory Workfare	20	20	20	20	20	100
Error Rate Sanctions	479	342	283	253	222	1,579
Total	1,024	1,181	1,202	1,057	966	5,430

SOURCE: Congressional Budget Office.

a/ Changes to budget authority equal changes in outlays.

households with earnings less than this full-time equivalent amount, the deduction was prorated according to the proportion of the full-time equivalent amount that their earnings represented.

The Administration proposes that the deduction for part-time workers be prorated using the method each state has adopted for use in its Aid to

Families with Dependent Children (AFDC) program. CBO does not have sufficient data to do a state-by-state analysis of the effects of this change. In most states, the deductions for part-time workers--whether sliding scales or fixed amounts are used--range between $37.50 and $50.00 per month. The method used here would result in higher deductions than from the AFDC procedures in some cases, and lower deductions in others.

About 19 percent of food stamp households have income from earnings and nearly half of these households have a full-time worker. The estimated average monthly benefit reduction for households with earnings would be $8.25, or 6.6 percent of the benefits that would be received under current policy.

The benefits of full-time workers would be reduced by an estimated average of $16.30 per month, or 12.8 percent of current policy benefits. It is estimated that more than 20 percent of full-time workers would experience benefit reductions in excess of $20 per month.

Part-time workers, as a group, would experience an estimated benefit reduction of less than $1.00 per month, which is less than 1 percent of current policy benefits. However, the benefit changes for households with part-time workers would vary widely depending upon the method of prorating the deduction adopted by individual states and the amount of earned income.

The estimates of savings from this proposal and the average effects cited above were made under the assumption that the excess shelter deduction would be eliminated. The estimated savings and average effects would be greater were the excess shelter deduction available as in current law. This is because a reduction in the earned income deduction would tend to reduce the excess shelter deduction, which would cause further benefit reductions.

Changes in the Excess Shelter, Dependent Care, and Standard Deductions

The Administration has proposed to eliminate the excess shelter deduction, permanently cap the dependent care deduction at $115 per month, and increase the standard deduction to $140 per month. The new standard deduction would be adjusted annually for price changes beginning in April 1984. These three changes were grouped together in estimating their effects on spending.

These proposals would result in increases in benefits for some households and reductions in benefits for others. The total amount of benefit reductions would exceed benefit increases, resulting in net savings of $220 million in 1984 and a five-year savings of $984 million.

Households most likely to gain from these proposals would be those that currently claim no excess shelter deduction. For them the changes would have the effect of increasing the standard deduction by about $50 per month, which translates into a monthly benefit increase of about $15. In August 1981, according to a survey conducted by the Department of Agriculture, nearly 31 percent of all Food Stamp households claimed no excess shelter deduction.

Households most likely to lose benefits would be those claiming an excess shelter deduction that exceeded $50 to $60 per month during fiscal year 1984, with the amount of loss growing with the level of excess shelter deduction that could be claimed under current law. In the survey cited above, about 30 percent of all households claimed an excess shelter deduction equal to or greater than the $115 monthly maximum. The maximum applies only to households with no elderly or disabled members. Households with excess shelter deductions at or exceeding the cap during fiscal year 1984 would experience benefit reductions of more than $20 monthly.

Table 3 summarizes the approximate effects of the proposed deduction changes on all households, households with an elderly or disabled member, households with earnings, households with public assistance income, and households with gross income below 50 percent of the poverty line. These categories are not mutually exclusive.

The first four rows of the table present the numbers of households, numbers of participants, and average benefits under current policy. These estimates are consistent with the 1984 CBO current policy baseline.

Rows 5, 6, and 7 of the table show estimates of the average benefit reductions resulting from the proposed changes. For all households, the average benefit loss is estimated to be $2.25 per month, or 2.0 percent of their benefits as determined under current policy.

As mentioned above, the elimination of the excess shelter deduction and the increase in the standard deduction cause a redistribution of benefits as well as an overall reduction in the average benefit level. Rows 8 through 17 of the table provide summary statistics on losers and gainers. For example, it is estimated that 44 percent of all households would experience benefit reductions averaging about $17.05 per month (13.2 percent of current policy benefits). An additional 41 percent would have increases in their monthly benefit averaging $12.65 per month (13.6 percent of current policy benefits) and 15 percent of all households would experience no change. The latter group consists of households receiving the minimum or maximum benefit levels, which would not be affected by changes in deductions.

TABLE 3. ESTIMATED EFFECTS ON FOOD STAMP BENEFIT LEVELS RESULTING FROM PROPOSED CHANGES IN THE EXCESS SHELTER, DEPENDENT CARE, AND STANDARD DEDUCTIONS, FISCAL YEAR 1984

	All Households	Households with Elderly or Disabled Members a/	Households with Earnings b/	Households with Public Assistance Income c/	Households with Gross Incomes Below 50% of Poverty d/
Households (millions)	7.9	2.31	1.47	3.98	2.49
Participants (millions)	21.20	4.13	5.48	12.34	6.82
Current Policy					
Benefit/Household ($/mo.)	112.40	59.55	123.95	133.25	163.35
Benefit/Person ($/mo.)	41.90	33.30	33.20	43.00	59.70
Average Benefit Change					
Per Household ($/mo.)	-2.25	-2.60	3.05	-3.55	-2.20
Per Participant ($/mo.)	-0.85	-1.45	0.80	-1.15	-0.80
Percent Change	-2.0	-4.3	2.5	-2.6	-1.3
Distribution of Changes					
Benefit Reductions					
Percent of Category	44	39	34	54	36
Households (millions)	3.47	0.91	0.49	2.14	0.90
Average Reduction ($/mo.)	-17.05	-22.35	-15.70	-16.20	-13.30
Percent Change	-13.2	-29.4	-10.8	-11.1	-6.7
Benefit Increases					
Percent of Category	41	52	58	40	24
Households (millions)	3.25	1.19	0.85	1.58	0.59
Average Increase ($/mo.)	12.65	12.00	14.40	13.00	11.00
Percent Change	13.6	23.6	12.8	10.9	7.0
No Change					
Percent of Category	15	9	8	6	40
Households (millions)	1.19	0.21	0.12	0.26	1.01

SOURCE: Congressional Budget Office analysis primarily based on data from the Survey of Characteristics of Food Stamp Households: August 1981.

a/ Households with at least one member age 60 or more or receiving Supplemental Security Income.

b/ Earnings include wages, salaries, self-employment, and farm income.

c/ Public assistance includes benefits from Aid to Families with Dependent Children and General Assistance programs.

d/ The 1983-1984 poverty line for a four-person household is $9,900 per year, or $825 per month.

On average, the only category of household not experiencing benefit reductions would be those with earned income. About 40 percent of households with earnings claim no excess shelter deduction, and the average amount of the deduction for those that do qualify for it is low relative to the average for other categories of households. When compared to other categories, households with earnings stand to gain the most and lose the least from this subset of the proposed changes.

Among households losing benefits, the largest estimated monthly reduction would be for those with elderly or disabled members. Households with elderly or disabled members stand to lose the most from elimination of the excess shelter deduction because they are not currently subject to the deduction cap that applies to other households. In the August 1981 survey sample, 20.8 percent of households with elderly or disabled members claimed excess shelter deductions in excess of the $115 maximum that applied to other households at that time.

Among households losing benefits, those losing least would be households with incomes below 50 percent of the poverty line.

Among households with increases in benefits, households with earnings would have the greatest average increase. They would also have the greatest proportion of gainers. Slightly over half of households with elderly or disabled members would receive increases, while only 24 percent of households with incomes below 50 percent of the poverty line would benefit from these proposals.

About 15 percent of all households would experience no change in benefits as a result of these deduction changes. Most of this group, nearly 85 percent are households with very low incomes that are likely to be receiving the maximum monthly benefit and thus not to be affected by changes in deductions.

Delay of the Cost-of-Living Adjustment

The maximum benefit levels for households of different sizes, which are determined in relation to an adjusted value of the Department of Agriculture's Thrifty Food Plan, are currently changed each October. The Administration's proposal would delay the October 1983 change until April 1984. Subsequent changes would also be made in April rather than October.

CBO projects that under existing law the maximum monthly allotment level for a four-person household would increase in October 1983 from the current $253 to $256. This relatively small increase of slightly more than 1 percent reflects the modest increases in food prices expected

between June 1982 and June 1983, the period over which the cost-of-living adjustment (COLA) is determined. Projected adjustments in later years are based upon the assumption that annual increases in food prices will be in the 4 to 5 percent range.

The Administration's proposal would delay the COLA increase by six months, thus reducing benefits relative to those under current law for the first six months of each fiscal year. All households would be affected except those receiving the minimum benefit. Larger households would lose more than smaller households. The average benefit reduction would be about $2.25 a month per household in the six-month period during which this provision would affect benefits.

Savings from this proposal are estimated to be $105 million in fiscal year 1984 and about $1.6 billion over the 1984-1988 period.

Change in the Definition of Household

The Administration's proposal would require that all persons living together be considered as a single food stamp household. Elderly persons would be exempt from the requirement if they could demonstrate that they purchased food and prepared meals separately. Current law allows unrelated persons, elderly and disabled persons (except spouses), and nonsibling relatives living together to participate as separate households if they can prove that they purchase food and prepare meals separately.

Benefit payments would be reduced as a result of this change because households that now participate separately would be consolidated. Thus, only one rather than two standard deductions could be used in calculating benefits. In addition, the economy-of-scale factors used in determining maximum benefits would result in smaller per person maximum benefits for large households than for small households. In some cases, eligibility would be lost because counting the income of all persons living together would result in household income exceeding 130 percent of the poverty line.

The estimated savings from this proposal are $55 million in fiscal year 1984 and $335 million over the five-year period. This estimate is based on an Administration analysis of data from the 1979 research panel of the Income Survey Development Program. These data allow the identification of food stamp households within larger census dwelling units. It is estimated from these data that 130,000 to 150,000 households would be affected by the proposal.

SELECTED DISTRIBUTIONAL EFFECTS OF THE ADMINISTRATION'S PROPOSED CHANGES

The average monthly benefit reduction among all food stamp households resulting from the Administration's proposals is estimated to be $5.55, or 4.9 percent of benefits that would be received under current policy, as displayed in Table 4. This table shows estimates of the effects of all the deduction changes, the COLA delay, and the change in the definition of household on the same categories of households as contained in Table 3.

Before the distributional effects are examined, however, certain notes should be made about Table 4. Data from the 1981 survey of characteristics of food stamp households were used to estimate effects of all deduction changes and the COLA delay. For purposes of this analysis it was assumed that the effects of the change in the household definition would be evenly distributed among household types other than households containing elderly or disabled members. Available data do not allow a more accurate distribution of the effects of this change. The effect of the COLA delay, which only affects benefits for the first six months of the fiscal year, is included as an average effect for the year. Also, as mentioned above, benefit changes for part-time workers were calculated by assuming that the $75 standard earned income deduction would be prorated according to the proportion that household earnings represented of the full-time equivalent amount. If states were to adopt their current practices for determining this deduction for part-time workers in their AFDC programs, the distribution of benefit changes for households with part-time workers would differ somewhat from that used as the basis for construction of this table.

Of the categories of households included in Table 4, households with earnings show the greatest loss per household but a smaller than average amount per person. The smallest average reduction per household is among those with elderly or disabled members, and the smallest average reduction per participant is among households with gross income below 50 percent of the poverty line.

Sixty-two percent of all food stamp households would lose benefits as a result of the Administration's proposals. Among households losing benefits, those with elderly or disabled members would experience the greatest average benefit reduction, nearly $21.00 per month, or 26.3 percent of current policy benefits. Benefit losses would occur with less frequency (44 percent) among these households than among all households together. The lowest average benefit reduction among households losing benefits would occur among those with income below 50 percent of the poverty line. But the proportion of this group experiencing benefit losses (79 percent) would be well above that for the other categories.

TABLE 4. ESTIMATED EFFECTS ON FOOD STAMP BENEFIT LEVELS RESULTING FROM PROPOSED CHANGES IN THE EXCESS SHELTER, DEPENDENT CARE, AND STANDARD DEDUCTIONS, EARNED INCOME DEDUCTION, HOUSEHOLD DEFINITION, AND COST-OF-LIVING ADJUSTMENT SCHEDULE, FISCAL YEAR 1984

	All Households	Households with Elderly or Disabled Members a/	Households with Earnings b/	Households with Public Assistance Income c/	Households with Gross Incomes Below 50% of Poverty d/
Households (millions)	7.90	2.31	1.47	3.98	2.49
Participants (millions)	21.20	4.13	5.48	12.34	6.82
Current Policy					
Benefit/Household ($/mo.)	112.40	59.55	123.95	133.25	163.35
Benefit/Person ($/mo.)	41.90	33.30	33.20	43.00	59.70
Average Benefit Change					
Per Household ($/mo.)	-5.55	-3.55	-7.35	-6.20	-4.25
Per Participant ($/mo.)	-2.05	-2.00	-1.95	-2.00	-1.55
Percent Change	-4.9	-6.0	-5.9	-4.7	-2.6
Distribution of Changes					
Benefit Reductions					
Percent of Category	62	44	64	64	79
Households (millions)	4.92	1.01	0.94	2.54	1.96
Average Reduction ($/mo.)	-14.80	-26.90	-16.15	-15.90	-8.05
Percent Change	-11.4	-26.3	-11.8	-11.1	-4.9
Benefit Increases					
Percent of Category	35	50	35	36	21
Households (millions)	2.80	1.15	0.51	1.43	0.53
Average Increase ($/mo.)	10.45	11.05	8.30	10.95	9.75
Percent Change	11.8	22.7	7.8	9.3	6.2
No Change					
Percent of Category	2	7	1	* e/	*
Households (millions)	0.18	0.15	0.02	*	*

SOURCE: Congressional Budget Office analysis primarily based on data from the Survey of Characteristics of Food Stamp Households: August 1981.

a/ Households with at least one member age 60 or more or receiving Supplemental Security Income.

b/ Earnings include wages, salaries, self-employment, and farm income.

c/ Public assistance includes benefits from Aid to Families with Dependent Children and General Assistance programs.

d/ The 1983-1984 poverty line for a four-person household is $9,900 per year, or $825 per month.

About 35 percent of all households would have increased benefits. Among households with elderly or disabled members, 50 percent would receive benefit increases averaging $11.05 per month, an increase of 22.7 percent. This is both the highest proportion of households with benefit increases among the categories and the largest average benefit increase. A relatively small proportion of households with incomes below 50 percent of the poverty line would have benefit increases. As mentioned previously, many households in this category now receive the maximum benefit and would not be affected by the increase in the standard deduction.

Few households would experience no change in benefit levels. A number of those who would have no benefit change as a result of the changes in the standard deduction, the excess shelter deduction, and the child care deduction (as shown above in Table 3) would be affected primarily by the COLA delay and would experience benefit losses for half of each year. This is particularly the case for those with incomes below 50 percent of poverty.

TECHNICAL APPENDIX

Estimated Effect of Proposed Deduction Changes on the Food Stamp Program Error Rate

This section discusses the effects of the proposal to eliminate the excess shelter deduction on the error rate. First, an estimate of the effects of this change on the measured overpayment error rate is discussed. The observed overpayment error rate affects sanctions imposed on states either under current law or under a proposed change in the sanction system included in the President's budget. The second item of discussion is an estimate of the change in the level of benefit payments made in error that would result from eliminating the excess shelter deduction. While any change in eligibility or benefit determination procedures may affect error rates by increasing or decreasing administrative difficulties, the elimination of this relatively complex deduction is the only such change in the current set of proposals that is expected to have a significant effect on payments made in error.

CBO estimates that the elimination of the excess shelter deduction would reduce the measured overpayment error rate by about 5 percent. Had this proposal been in effect during the April-to-September 1981 quality control reporting period, for example, when overpayments resulting from overissuances and payments to ineligible households totaled 9.75 percent of benefits, the error rate would more likely have been about 9.25 percent of benefits.

Information associating amounts of overpayment errors with specific causes is no longer routinely collected during the quality control review process. The estimate of the effect cited above was derived using the following information:

- In the most recent reporting period for which error rate data have been released--April to September 1981--33.9 percent of all variances observed were associated with deductions. A variance is recorded when information verified by the reviewer differs from that used in the determination of benefits or when a policy relating to eligibility has been misapplied. A variance does not necessarily mean that a case is in error, and more than one variance per case may be recorded.

- Before development of the current quality control review system, causes of errors were assigned to cases. The incidence of causes

of error, and the dollar amount associated with each, were reported. During the January-to-June 1978 reporting period, 35.8 percent of all case errors were attributed to deductions. These deduction errors accounted for 15.3 percent of all overissued benefits.

This was before the implementation of provisions of the Food Stamp Act of 1977 which replaced a number of itemized deductions with a standard deduction. This reduced the opportunity for committing errors associated with deductions. The 1978 statistics thus probably overstate the current percentage of case errors and benefit errors associated with deductions, but these figures are used for lack of more recent information.

- As mentioned above, the recording of a variance for a case under review does not necessarily mean that an overpayment occurred. For the excess shelter deduction, errors in reporting shelter costs or in calculating the excess shelter deduction would, in a significant number of cases, be expected to have no effect on benefit payments. For example, any household subject to the maximum excess shelter deduction that has a calculated deduction in excess of this cap could have an error that would affect the calculated deduction but would not affect the deduction claimed or, in turn, household benefits. Other households might report excess shelter costs but not have shelter costs large enough relative to their income to be able to claim the excess shelter deduction; in such instances, errors in reporting shelter expenses would also tend to have no effect on benefit payments. Other categories of households for which an error in reporting shelter costs or in calculating the excess shelter deduction would tend to have no effect on benefits include those receiving the maximum or minimum benefits.

  An analysis of the August 1981 survey of characteristics of food stamp households shows that about 37 percent of all households (41 percent of those reporting shelter costs) had positive but uncapped shelter deductions and received benefits at levels other than the maximum or minimum. For these households, an erroneous change in the excess shelter deduction would clearly have an effect on benefit payments. Among other households, effects on benefits of an error associated with the shelter deduction would be far less likely and, when they occurred, would tend to be smaller.

The following assumptions were made for the purposes of the estimate:

- Of all deduction variances observed, 80 to 90 percent are due to errors in reporting shelter costs or in calculating the excess shelter deduction. About 90 percent of all households report shelter costs, and the excess shelter deduction is claimed by far more households than any other nonstandard deduction.
- The magnitudes of the errors in reporting shelter costs or calculating the excess shelter deduction are distributed uniformly across households reporting shelter costs.

The calculation of a range of estimates of the effect of eliminating the excess shelter deduction on the overpayment error is shown in Table 5.

TABLE 5. ESTIMATES OF THE EFFECTS OF ELIMINATING THE EXCESS SHELTER DEDUCTION ON THE OVERPAYMENT ERROR RATE IN THE FOOD STAMP PROGRAM

Percent of all variances due to deductions	33.9	33.9
Assumed proportion of deduction variances due to excess shelter deduction	0.8	0.9
1978 ratio of payment errors due to deductions to the case error rate	0.43	0.43
Proportion of households reporting shelter costs whose benefits are affected by excess shelter deduction error	0.41	0.41
Estimated effect of eliminating the excess shelter deduction on the overpayment error rate (Product of above figures, expressed as a percent of the overpayment error rate)	4.78	5.38

SOURCE: Congressional Budget Office.

The range of estimates shown in Table 5 should not be interpreted as a confidence interval. The lack of data cause greater uncertainty about the precision of the point estimate than reflected in this range of estimates.

The result of the analysis reported above was used in estimating the reductions in erroneous payments associated with eliminating the excess shelter deduction. Erroneous payments, both underissuances and overissuances, result from errors in reporting shelter costs and calculating the excess shelter deduction. Eliminating the deduction would eliminate those erroneous payments. CBO estimates the savings at $30 million to $35 million.

Information on causes of underpayments is not available. For purposes of this estimate it was assumed that the ratio of all overpayments to all underpayments observed in the April-to-September 1981 reporting period also applies to errors due to deductions. In this 1981 reporting period, underpayments represented 2.38 percent of benefits, while overpayments accounted for 9.75 percent of benefits.

Using this ratio, together with the estimate that the overpayment error rate would be reduced by about 5 percent, results in a net change amounting to about 0.3 percent of all benefits, which for fiscal year 1984 is between $30 million and $35 million. The base overpayment error rate assumed to be in effect during 1984 is 8.05 percent.

Primary Source of Data for this Analysis

Except when stated otherwise, the estimates of savings and the distributions of effects from proposed changes described above were made using data from the August 1981 survey of characteristics of food stamp households conducted by the Department of Agriculture. The data were adjusted where possible to incorporate changes in food stamp rules implemented since the time of data collection. Most estimates were derived by determining the level of benefits for households contained in the sample under the proposed alternative and comparing this with benefits calculated under the procedures currently in effect. Implicit in this approach is the assumption that the distributions of characteristics of participating households have not changed significantly since the time the survey data were collected. Though this assumption is not likely to be completely satisfied, more recent data are not currently available. Whether this biases the estimates, and if so in what direction, is not clear.

For additional information on the analysis contained in this memorandum, contact Roger Hitchner at 226-2820.

[The following memorandum, prepared by the Congressional Budget Office; outlines the effects of 1981 legislation on programs administered by the Food and Nutrition Service.]

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

Alice M. Rivlin
Director

April 29, 1983

The Honorable Jesse A. Helms
Chairman
Committee on Agriculture,
Nutrition, and Forestry
United States Senate
Washington, D.C. 20510

Dear Senator Helms:

The attached memorandum is in response to your request for an analysis of the effects of 1981 legislation on programs administered by the Food and Nutrition Service.

Should you so desire, we would be pleased to provide additional details on the analysis contained in this memorandum.

Sincerely,

for James Blum
Alice M. Rivlin
Director

BEST COPY AVAILABLE

REVISED ESTIMATES OF EFFECTS OF LEGISLATION ENACTED DURING 1981 AFFECTING THE FOOD STAMP AND CHILD NUTRITION PROGRAMS

In 1981 the Congress enacted legislation that significantly reduced Food Stamp and Child Nutrition program outlays. At that time the Congressional Budget Office provided estimates of savings. This memorandum--prepared at the request of the Senate Committee on Agriculture, Nutrition, and Forestry--presents revised estimates of savings from several Food Stamp and Child Nutrition program changes enacted during 1981. Some of the savings estimates are sensitive to assumptions about inflation rates, and these revised estimates are based on currently projected rates of inflation. In addition, some of the earlier estimates reflected technical assumptions that have proved inaccurate. Finally, additional information has entered into some of the revisions.

For the Food Stamp program, reestimates have been confined to changes affecting cost-of-living adjustments (COLAs) in the allotment levels. The rate of food price inflation has been considerably lower than assumed in the original estimates of the effects of COLA changes. Other Food Stamp program changes made in the 1981 legislation are also likely to have different effects on outlays than originally estimated. Some evidence exists, for example, that original estimates probably overstated savings from the 1981 reconciliation act provision requiring implementation of monthly reporting and retrospective budget procedures for most of the food stamp caseload. CBO is currently reexamining this issue.

Reestimates of other program changes may become possible when the Administration completes its study of the effects of Food Stamp program changes made during the 97th Congress, a study it is required to make by a provision of the Omnibus Budget Reconciliation Act of 1982.

In the Child Nutrition programs, the effects of COLA changes have also been reestimated, as have savings from several other provisions of the 1981 reconciliation act for which additional information has become available.

Table 1 shows the original estimates of the effects on outlays of Food Stamp and Child Nutrition program changes enacted during 1981, together with the revisions discussed in this memorandum. For example, the original estimate of savings in the Food Stamp program during 1982 resulting from 1981 reconciliation act changes was $1,708 million. The revised estimate is $1,410 million. Revisions for all years show smaller savings from the 1981 reconciliation act changes for both the Food Stamp and Child Nutrition programs.

TABLE 1. ORIGINAL AND REVISED ESTIMATES OF EFFECTS ON OUTLAYS OF CHANGES AFFECTING THE FOOD STAMP AND CHILD NUTRITION PROGRAMS ENACTED DURING THE FIRST SESSION OF THE 97TH CONGRESS (By fiscal year, in millions of dollars) a/

	1982	1983	1984
Food Stamp Program			
Changes Enacted in the Omnibus Budget Reconciliation Act of 1981			
Revised savings estimate	1,410	1,765	2,262
Original savings estimate	1,708	2,096	2,384
Difference	-298	-331	-122
Changes Enacted in the Food Stamp and Commodity Distribution Amendments of 1981			
Revised savings estimate	410	-485	-190
Original savings estimate	700	-250	-220
Difference	-290	-235	30
Child Nutrition Programs			
Changes Enacted in the Omnibus Budget Reconciliation Act of 1981			
Revised savings estimate	1,206	1,305	1,392
Original savings estimate	1,369	1,471	1,571
Difference	-163	-166	-179

SOURCE: Congressional Budget Office.

a/ Food Stamp program savings include those resulting from establishing a food assistance block grant in Puerto Rico. The Puerto Rico Nutrition Assistance Program, funded by this grant, has been operating in the Commonwealth since July 1982.

Table 1 also shows estimates of the effects of changes enacted in the Food Stamp and Commodity Distribution Amendments of 1981. Those changes were expected to reduce spending during 1982 and increase spending during 1983 and 1984. The revised estimate of savings declines by $290 million in 1982 and the estimated increases in spending rise by $235 million in 1983 and fall by $30 million in 1984.

The remainder of this memorandum discusses the provisions for which reestimates have been made and the basis for each reestimate.

FOOD STAMP PROGRAM CHANGES

Reestimates have been made of the effects on Food Stamp program outlays of changes in the COLA included in the Omnibus Budget Reconciliation Act of 1981 and of further changes in the COLA enacted in the Food Stamp and Commodity Distribution Amendments of 1981.

COLA Change--Omnibus Budget Reconciliation Act of 1981

Until the Omnibus Budget Reconciliation Act of 1981, the maximum allotment levels in the Food Stamp program were scheduled to be adjusted in January 1982 and in each subsequent January based on projections of the value of the Department of Agriculture's Thrifty Food Plan in the preceding December. Projected, rather than actual, values of the December Thrifty Food Plans were specified because the actual value would not have been known at the time that states were required to adjust the levels. Maximum allotment levels, which are determined for each household size, are the amounts of benefits received by households with no net food stamp income (net food stamp income is the household's gross income less applicable deductions). Allotments for households with positive net incomes are computed by subtracting 30 percent of net income from the maximum allotment level specific for each household size.

The 1981 reconciliation act changed the basis for adjusting the maximum allotment levels. Specifically, the first adjustment following enactment of the law was to be made in April 1982 based upon the actual value of the Thrifty Food Plan during December 1981. The next adjustment was to be made in July 1983 based upon the Thrifty Food Plan value in March 1983. The adjustment in 1984 and all subsequent years was to occur in October based upon June Thrifty Food Plan values.

These delays in COLAs result in savings because, for a portion of the year, the maximum allotment levels and the corresponding benefit levels are lower than they would be without the program change. The greater the rate

of inflation, the greater is the difference between the allotment levels in effect given the COLA delay and those that would have been in effect with no change in the law. The greater this difference, the greater are the savings.

Revised estimates of savings from this provision are substantially lower than original estimates because food price increases were less than projected. Table 2 shows assumed rates of food price inflation, differences between the fiscal year average maximum allotment levels for four-person households with and without the delay, and the estimated outlay savings in 1982-1984. These figures are shown as estimated in 1981 and as revised.

The differences between maximum allotment levels shown in Table 2 are based on annual averages of those in effect during the year for a four-person household under the schedule of inflation adjustments in effect before and after the legislative change. Based upon original projections, this difference would have averaged $8.00 per month for a four-person household, resulting in benefit reductions of this amount for most four-person households when averaged over the fiscal year. All savings during 1982 would have been realized during the January through March period due to the effects of the COLA delay in that fiscal year. The maximum allotment level for a four-person household during calendar year 1981 was $233 per month; this would have increased under the policies then in effect, and the inflation assumptions then in force, to $265 in January. The law change delayed this increase for three months, causing a projected difference in maximum allotments for this household size of $32 per month during the three-month period (or $8 per month when averaged over the year). Using actual rather than projected food prices, the maximum allotments for this household size would have increased to $246 in January 1982. The delay would thus have resulted in monthly benefit reductions for most four-person households of $13 during the three-month period. Projected and actual differences for households with fewer than four members would have been less than the amounts for the four-person household, and those for households with more than four members would have been greater.

The schedule of COLAs specified in the 1981 reconciliation act would have caused benefit reductions during six months and benefit increases during three months of fiscal year 1983, as compared to the adjustment schedule previously in effect. In fiscal year 1984, benefit reductions would have occurred during nine months and benefit increases during three months. The figures in Table 2 average these effects over the entire year.

TABLE 2. ORIGINAL AND REVISED PROJECTIONS OF FOOD PRICE INFLATION, ESTIMATED AVERAGE REDUCTIONS IN MAXIMUM ALLOTMENT LEVELS, AND ORIGINAL AND REVISED ESTIMATES OF SAVINGS FOR THE CHANGE IN THE FOOD STAMP PROGRAM COLA ENACTED IN THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981, FISCAL YEARS 1982 THROUGH 1984

	1982	1983	1984
Food Price Inflation (percent change) a/			
Revised b/	3.3	2.2	5.1
Original c/	9.1	6.5	5.7
Allotment Level Difference ($/mo.) d/			
Revised	-3.25	-2.00	-5.00
Original	-8.00	-8.50	-8.75
Estimated Savings (millions of dollars)			
Revised	214	131	318
Original	512	462	440
Difference	-298	-331	-122

SOURCE: Congressional Budget Office.

a/ Food price inflation measured by the change in the annual average value of the Department of Agriculture's Thrifty Food Plan for a four-person household.

b/ Based on CBO economic assumptions, February 1983.

c/ Based on economic assumptions adopted by the Congress for use in estimating the first resolution in the fiscal year 1982 budget.

d/ Difference for a four-person household in the 48 coterminous states and the District of Columbia.

COLA Change--Food Stamp and Commodity Distribution Amendments of 1981

The Food Stamp and Commodity Distribution Amendments of 1981 provided for further changes in the cost-of-living adjustments. An inflation adjustment was to be made each October, beginning in 1982, based upon values of the Thrifty Food Plan in the preceding June. As a result of this change, no adjustment was made during fiscal year 1982. Relative to the schedule specified in the 1981 reconciliation act, in which maximum allotments were to be adjusted in April 1982, allotment levels, and thus benefit levels, were lower for the last six months of fiscal year 1982 than they would have been without this further change in the law.

The COLA schedule change in the Food Stamp and Commodity Distribution Amendments of 1981 would cause increased costs during fiscal years 1983 and 1984 (using as the basis of comparison the 1981 reconciliation act schedule). This is primarily because the COLA was returned to a 12-month adjustment schedule, rather than a 15-month adjustment schedule as specified in the 1981 reconciliation act. During times of rising prices, more frequent adjustments in the allotment levels result in greater program expenditures. Table 3, which is similar to Table 2, shows original and revised food price inflation assumptions, maximum allotment level differences, and estimated effects on program outlays. Note that the food price inflation assumptions on which the original estimates were based differ from those used to estimate changes in the 1981 reconciliation act. By late 1981, when the Food Stamp and Commodity Distribution Amendments of 1981 were being considered, it was clear that the earlier inflation assumptions used to estimate effects of the 1981 reconciliation act were too high. 1/

CHILD NUTRITION PROGRAM CHANGES

The 1981 reconciliation act made a number of changes in the Child Nutrition programs. CBO has reestimated the effects of changes in the structure of reimbursement rates and COLA schedules, restrictions on the eligibility of sponsors of Summer Food Service program sites, and new income documentation and verification requirements. Table 4 shows these reestimates.

1/ At the request of Agriculture Committee staff, estimates of the effects of this COLA schedule change were prepared based upon several different sets of more recent economic assumptions. The assumptions used as the basis for estimates shown in the Table 3 were those adopted by the Administration for its mid-session review of the 1982 budget.

TABLE 3. ORIGINAL AND REVISED PROJECTIONS OF FOOD PRICE INFLATION, ESTIMATED AVERAGE CHANGES IN MAXIMUM ALLOTMENT LEVELS, AND ORIGINAL AND REVISED EFFECTS ON OUTLAYS OF THE CHANGE IN THE FOOD STAMP PROGRAM COST-OF-LIVING ADJUSTMENT SCHEDULE ENACTED IN THE FOOD STAMP AND COMMODITY DISTRIBUTION AMENDMENTS OF 1981, FISCAL YEARS 1982 THROUGH 1984

	1982	1983	1984
Food Price Inflation (percent change) a/			
Revised b/	3.3	2.2	5.1
Original c/	7.7	6.5	5.4
Allotment Level Difference ($/mo.) d/			
Revised	-6.50	7.50	3.00
Original	-11.50	4.25	4.00
Estimated Savings (millions of dollars)			
Revised	410	-485	-190
Original	700	-250	-220
Difference	-290	-235	30

SOURCE: Congressional Budget Office.

a/ Food price inflation measured by the change in the annual average value of the Department of Agriculture's Thrifty Food Plan for a four-person household.

b/ Based on CBO economic assumptions, February 1983.

c/ Based on economic assumptions used by the Administration for the mid-session review of the fiscal year 1982 budget.

d/ Difference for a four-person household in the 48 coterminous states and the District of Columbia.

TABLE 4: ORIGINAL AND REVISED ESTIMATES OF THE EFFECTS ON CHILD NUTRITION OUTLAYS OF PROGRAM CHANGES ENACTED IN THE OMNIBUS RECONCILIATION ACT OF 1981, FISCAL YEARS 1982 THROUGH 1984 (By fiscal year, in millions of dollars)

	1982	1983	1984
Original Estimated Savings	1,369	1,471	1,571
Reestimates			
Lower than projected food price inflation	-77	-77	-88
Summer Food Service Program for Children	-36	-39	-41
Income documentation and verification	-50	-50	-50
Total reestimates	-163	-166	-179
Revised Estimated Savings	1,206	1,305	1,392

SOURCE: Congressional Budget Office.

Lower rates of food price inflation have the effect of reducing expected savings from changes that lowered reimbursement rates in most programs and that made the schedule of inflation adjustments annual rather than semiannual. The reasons are similar to those discussed for the Food Stamp program. Original and revised food price inflation assumptions are shown in Table 5.

The 1981 reconciliation act limited the sponsorship of summer food service sites to public or private nonprofit school food authorities, local, municipal or county governments, and residential nonprofit summer camps. Service was also restricted to those areas where at least 50 percent of the children meet the income requirements for free or reduced-price school lunches. Before enactment of this legislation, private nonprofit organizations other than schools and residential camps could sponsor programs, and programs could be operated in areas where more than one-third of the children were eligible for free or reduced-price school lunches.

TABLE 5. ORIGINAL AND REVISED PROJECTED RATES OF FOOD PRICE INFLATION AFFECTING REIMBURSEMENT RATES IN THE CHILD NUTRITION PROGRAMS a/

	May 1981	May 1982	May 1983	May 1984
Revised b/	9.3	5.4	5.1	5.1
Original c/	10.6	9.4	7.2	6.5

SOURCE: Congressional Budget Office.

a/ Inflation measured as the percent change in the Consumer Price Index for food away from home during the 12 months preceding the month shown. Reimbursement rates are, in most programs, currently adjusted in July based upon changes in this index occurring during the 12-month period ending the preceding May.

b/ Based on CBO economic assumptions, February 1983.

c/ Based on economic assumptions adopted by the Congress for use in estimating the first resolution in the fiscal year 1982 budget.

These changes saved less than had been estimated at the time of passage of the 1981 reconciliation act (see Table 6). One apparent reason for the reduction in savings was the transfer of sponsorship of some sites from sponsors made ineligible by the change to eligible sponsors.

The final change in the Child Nutrition programs for which reestimates have been made involves documentation of income sources and verification of information on applications for free and reduced-price meals. Previously, applicants had not been required to document their income sources, and states had not been free to verify information submitted on the applications. The original estimate of savings from the Administration was $100 million per year in fiscal years 1982 through 1984.

Based on information from the Administration, the estimate of savings from these additional verification procedures has been reduced to $50 million per year. The reduction results from a smaller decline in free meal participation than anticipated.

TABLE 6. ORIGINAL AND REVISED ESTIMATES OF OUTLAY SAVINGS OF SUMMER FOOD SERVICE PROGRAM CHANGES ENACTED IN THE OMNIBUS RECONCILIATION ACT OF 1981, FISCAL YEARS 1982 THROUGH 1984 (By fiscal year, in millions of dollars)

	1982	1983	1984
Revised Estimated Savings	49	54	58
Original Estimated Savings	85	93	99
Difference	-36	-39	-41

SOURCE: Congressional Budget Office.

STATEMENT OF JOHN W. BODE, DEPUTY ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, and members of the subcommittee, we appreciate the invitation to appear before you today to discuss the Administration's legislative proposals for fiscal year 1984.

At the outset, I want to assure this committee that the Administration remains concerned about the nutritional well-being of low-income Americans and is committed to providing food assistance to those in need. The network of ten major feeding programs administered by the Food and Nutrition Service has met the challenges of difficult times. At the same time, we believe that further refinements will improve performance and increase the return on the taxpayer's investment.

Before I give you some specifics on the fiscal year 1984 budget proposal, I would like to quickly identify the major food assistance programs for which FNS is responsible. These programs are generally targeted to those most in need and are largely "means-tested," with the income and financial situation of the recipient being the primary criteria for eligibility.

The U.S. Department of Agriculture, Food and Nutrition Service, currently operates ten major food assistance programs.

The largest of these, the Food Stamp Program, provides food assistance for the general population.

Other programs are designed for the nutritional needs of particular groups. The National School Lunch and Breakfast Programs, Child Care Food Program, Summer Food Service Program, Special Milk Program, and the Nutrition Education and Training Program serve children. The Special Supplemental Food Program for Women, Infants and Children (known as the WIC Program) and the Commodity Supplemental Food Program are designed to enhance the diets of certain expectant and new mothers as well as infants and small children. Finally, the Food Distribution Program provides foods to a wide range of individuals from the elderly, to those in charitable institutions, to needy families on Indian reservations.

When this Administration took office, we inherited programs with one of the most rapidly increasing growth rates of all Federal programs. The rate of growth exceeded that in Medicare and Medicaid. Had it not been for legislative changes over the last three years, which reduced potential for fraud and waste and tightened program administration, these programs would have cost almost $21 billion this year. Even with these changes, the cost of food assistance programs will have doubled between 1977 and 1983. Since this Administration took office, the cost of Federal food assistance programs has grown by 34 percent. Taking inflation into account, real growth in program costs has been 6.7 percent. There are two basic reasons for this cost increase. First, more people are being served in many of the programs, reflecting response to the economy. Second, benefits have increased for needier households.

CONTINUING SUPPORT FOR THE NUTRITIONALLY NEEDY

Some significant changes have ben made in nutrition assistance programs since this Administration came into office. They have been judicious changes, calculated to reduce the rate of program growth while continuing to protect those in need.

Legislation passed by Congress in 1981 and 1982 will reduce the rate of expenditure growth of the Food Stamp Program in fiscal year 1983.

This cost containment is achieved in five ways. First, delayed cost of living adjustments result in slower growth. Second, there is less waste. For example, households that apply for food stamps get only the food stamps they need for the number of days that are left in the month in which they apply, instead of enough food stamps for the whole month. Third, there are tightened eligibility requirements. Most strikers and more students are now ineligible. Also, participation is limited to households with income below 130 percent of the poverty guideline—about $12,000 per year for a family of four; previously, eligibility was based on net income. Fourth, savings accrue from the provision of a block grant for the Puerto Rico Food Stamp Program, which has been designed by the Commonwealth, to more accurately reflect the needs of Puerto Rico. Finally, reduced errors result from creating fiscal incentives for States to reduce error rates.

To curb the rate of expenditure growth in Child Nutrition Programs, we have taken four basic steps. Meal subsidies are now targeted more heavily to children from lower income families. Income eligibility limits for free and reduced price meals have been lowered slightly. Fewer eligible children are receiving benefits as family income verification increases. Finally, lower priority programs to buy kitchen equipment for local schools and Federal funding for local nutrition education have been either eliminated or reduced.

Though these changes have had some budgetary impact, the Federal government is spending more than ever before on nutrition assistance. Currently, we are spending $17.5 billion in direct assistance, and we are also providing $1.1 billion in our special dairy distribution and bonus commodity donations, for a total of $18.6 billion. The Federal government currently subsidizes, in whole or in part, approximately 95 million meals per day. The WIC program has grown tremendously; participation for the first quarter of this year in 20 percent greater than in the comparable period last year. Since President Reagan took office, the Food Stamp Program's average per person benefit amount and maximum allotment amount have grown faster than food price inflation.

Almost one in ten Americans receive Food Stamp Program benefits. A greater percentage of School Lunch Program dollars are dedicated to providing meals for children from low-income families. Indeed, we have increased the subsidy for meals served to children from low-income families. Additionally, we have exercised discretionary authority to distribute cheese, butter, and non-fat dry milk, rice, and cornmeal to low-income households.

Furthermore, we have been able to maintain support for those in need during adverse economic times, without adding new, permanent programs. The Food Stamp Program has grown in response to unemployment levels as one of several programs providing benefits to almost everyone with income below 130 percent of the poverty guideline.

ADMINISTRATION'S FISCAL YEAR 1984 PROPOSALS

Now I would like to briefly discuss the Administration's Fiscal Year 1984 proposals.

The Administration's proposals for modifying food assistance programs are consistent with the government-wide plan to delay cost-of-living adjustments by six months. This does not constitute a reduction in benefits but is a delay in implementing scheduled changes. This delay will not have a significant effect on food stamp allotments in Fiscal Year 1984 because of the substantial reduction in the rate of inflation. We project that the currently scheduled October adjustment would raise the four-person monthly allotment by only one dollar.

FOOD STAMPS

We are concerned about complications in the Administration of the Food Stamp Program which have contributed to increased error. Our Food Stamp quality control system indicates that approximately 10 percent of the program benefits are overpaid or issued to ineligible participants. That means we are wasting over $1 billion a year in the Food Stamp Program.

Therefore, the goals of our 1984 food stamp proposals are: (1) to streamline and simplify the program so that errors at certification can be reduced; (2) to revise the error sanction system so that we subsidize only 3 percent of State errors; (3) to improve the work policy in order to encourage employment.

Our 1984 proposed budget for the Food Stamp Program would spend $10.9 billion. This is $766 million less than what the program would cost in 1934 if there were no changes. Over half of these savings (55 percent) are due to the proposed revision of State agency liability, and 25 percent from simplified administration. Five percent of the savings will come from proposed changes in program work experience requirements, and 15 percent from reducing benefits or curbing the rate of program growth.

I think it's important to note that 80 percent of the savings will come about by reducing misexpenditures rather than recipients' benefits. This proposed budget was designed to minimize the reduction of any household's entitled benefits.

We propose to revise and simplify the program's system of deductions. First, we would establish a standard/shelter deduction of $140, adjusted April 1 of each year. It would replace the existing standard deduction and the itemized excess shelter expense deduction and would save $125 million in erroneous payments. Second, we would replace the itemized earned income deduction with a standard earned income deduction set at $75 monthly per full-time worker. The deduction for part-time work would be consistent with the AFDC standard for each State. Third, we would retain the dependent care deduction so that households who need to pay for child care in order to work could claim up to $115 a month as a deduction.

These proposals will help the Food Stamp eligibility worker by eliminating one of five possible deductions and six of ten computations. As a result, both errors and administrative burden would be reduced.

These proposals would achieve an estimated $306 million in savings in Fiscal Year 1984. Since about one-third of these savings come from simplification and error reduction, the impacts on households are not great—an average loss in benefits of 7 cents a day. Among households headed by women who have children, 13 percent will have no change while 46 percent will receive more benefits; the average change for these female-headed households will be a loss of only 3 cents a day.

We also propose to make households where all members receive AFDC payments; categorically eligible to receive food stamp benefits. This would simultaneously reduce error and free up staff time to be devoted to more error-prone cases. For AFDC-only households, we would replace individual determinations of benefit levels with a simplified benefit determination based on average food stamp benefits for AFDC households in each State. The benefits of average households would be unaffected by this proposal, which would save $70 million in Fiscal Year 1984 through simplification and error reduction. Twenty-five percent of the food stamp caseload is AFDC-only households.

Our proposal to consider persons who live together as one household for food stamp purposes would save an estimated $70 million in fiscal year 1984. Establishing and verifying who lives together is easier than determining who purchases and prepares food together. This proposal would eliminate eight of a possible ten decisions for the Food Stamp case worker. Furthermore, it will eliminate certain cases of abuse. Unrelated recipients can manipulate current rules and gain higher benefits by filing as separate households. Requiring all individuals living together to file as a single unit would end this abuse.

Fiscal year 1984 savings would be increased by $90 million by our proposal to require certain able-bodied persons to work in community work experience programs (CWEP). This proposal, coupled with the job search requirement, would encourage the able bodied to find work in the private sector. If no jobs are available, CWEP participants would perform useful work which meets community needs. We believe that a community work experience program provides benefit recipients with valuable jobs skills and work experience; it encourages the transition to economic independence; it fosters an equitable system by requiring work of those who can work; and it provides a return to the community for benefits received.

Our proposed changes for fiscal year 1984 will increase the States' opportunities to reduce errors. An additional incentive is needed to reduce state errors from their unacceptably high levels. Since food stamp funds are exclusively Federal dollars, States lack a strong incentive to improve administration. Error rates are lower in both AFDC and Medicaid, where states share in program costs.

We propose to establish State liability for the value of eligibility or overissuance errors above a 3 percent tolerance level. This will save an estimated $423 million in fiscal year 1984.

The Administration's proposal to revise the error sanction system provides a stronger incentive for error reduction. It places fiscal responsibility for incorrect eligibility and benefit determinations with those in a position to take corrective action. It also conforms the error tolerance level with that of the AFDC and Medicaid programs.

In summary, our 1984 food stamp proposals will simplify administration of the program, reduce error, provide incentives to obtain employment, and curb the rate of benefit growth.

Now, I would like to discuss the Child Nutrition program proposals.

For the Child Nutrition Programs, the legislative proposal for fiscal year 1984 was developed with two goals in view. These goals are to simplify and streamline program administration and reduce errors and deter fraud.

THE GENERAL NUTRITION ASSISTANCE GRANT

The proposed General Nutrition Assistance Grant of $535 million is designed to simplify program administration for State agencies, by consolidating funds expended in the Summer Food Service, School Breakfast, and Child Care Food Programs. The result will be enhanced administrative efficiencies through the reduction of program complexity and program tailoring by the States to fit their needs. This consolidation of programs will reduce Federal costs by $217 million in fiscal year 1984, including both meal subsidies and administrative costs.

In developing the fiscal year 1984 budget, we considered proposing incremental changes to the three categorical programs which are to be replaced by the General Nutrition Assistance Grant. Clearly there are problems with these programs as they are currently structured. For example, data from a recent study of the Child Care Food Program shows that funding for family day care homes is very poorly targeted. Under the current program structure, we would expect to spend $115 million on family day care meals in fiscal year 1984. Data indicates that over three-fourths of the meals go to children over 130 percent of poverty, and nearly two-thirds of the meals served in this program go to children from even higher income families that earn over 185 percent of poverty. Let's compare the subsidies that two children from the same higher-income family would receive in two different settings. One child is in a family day care home and the other is in school. The student receives a lunch subsidized at 22 cents in cash and commodities with possible additional bonus commodities which currently average 8 cents per meal. The total subsidy is 30 cents per day. The family day care operated lunch receives a federal subsidy of 98.5 cents. In addition, the same family day care child will also likely receive a breakfast with a Federal subsidy of 50.25 cents and a snack with a subsidy of 29.5 cents. This would not be of such concern if all or the vast majority of these children were from low-income families. Studies indicate that only 24 percent of the children are from families below 130 percent of poverty.

The Summer Food Service Program is another example of a program in need of substantial revision. Through legislative and regulatory improvements, the program has been improved but many problems remain. For example, most program sites allow any child who shows up to receive free meals which are totally subsidized by the Federal government. The only requirement is that the site operate in an area where over half the children are below 185 percent of the poverty level. Also, many sites offer multiple meal service similar to the Child Care Program. This means that any child from any family, rich or poor, can show up and claim several meals during the course of the day.

Finally, the School Breakfast Program which is well targeted to low-income students, does not appear to be delivering the nutritional benefits that we had all thought. A recent national study of the school nutrition programs gave very high marks to the lunch program in terms of nutritional benefits, but found the School Breakfast Program wanting.

We gave serious consideration to proposing major modifications in the current categorical programs to address these and other problems. However, we thought it made more sense to allow States the flexibility to tailor programs to the needs of their localities through the General Nutrition Assistance Grant.

In the absence of change the Child Care, Summer and School Breakfast Programs would cost $819 million in Fiscal Year 1984. We are proposing to transfer $76 million to HHS to maintain funding for meal service in Head Start Centers. The advantages of the General Nutrition Assistance Grant include (1) added State flexibility, (2) better served local needs, (3) simplified administration of nutrition assistance to Head Start, (4) targeted benefits so States can meet their own priorities, and (5) a streamlined program structure.

NEW ELIGIBILITY VERIFICATION INITIATIVE

In an effort to reduce error and deter fraud, the Department is proposing to transfer income eligibility verification functions for school meals to food stamp offices or, if equally capable, schools. While there are a variety of ways in which this could work, in general the application process for food stamp households, which represent two-thirds of those receiving free and reduced price meals, would be more simple. A more thorough review of applications from a sample of non-food stamp households can be made and the verification that will take place may be completed by well trained professional staff from the Food Stamp office. Food Stamp offices would receive reimbursement for their services from enhanced State Administrative Expenses. This proposal will provide needed relief to school administrators in our school systems who are currently responsible for income verification. I am concerned that our proposal is being widely misinterpreted. We are not proposing that children or their parents be sent to food stamp offices to be certified to receive free or reduced-price meals. We intend for State and local school officials to take advantage of eligibility verification expertise that exists in the Food Stamp offices. Our proposal will allow States to design verification methods that best meet their needs, using the resources of both the education and welfare systems. The net savings in fiscal year 1984 will be $21 million.

CREATE AN INDEPENDENT REDUCED-PRICE SUBSIDY LEVEL

Under current law the subsidy for reduced-price meals is tied to the free meal rate. Consequently, it is over-compensated when an adjustment for inflation is made, and the reduced-price meal rate increases faster than inflation. We propose modification of this provision, so that the reduced-price subsidy would increase at the same rate as the Consumer Price Index "food away from home" component. This proposal would provide increased equity in subsidies, and it would save $4 million in fiscal year 1984.

ELIMINATE THE NUTRITION EDUCATION AND TRAINING PROGRAM

The Department is proposing termination of the Nutrition Education and Training (NET) Program. Funds for this program were provided as seed money for the States to begin or augment existing nutrition education programs. To date, Federal support for NET has totaled about $94 million. This generous funding has created the basis for a successful program. The States should be in a position to take over funding of this program and decide the appropriate funding level for such activities. Now that nutrition education programs have been established, decisions about their future direction and funding should be left to State and local officials just as funding and priorities for other educational activities are left to State and local educators. The program is currently funded at $5 million.

MAINTAIN WIC/CSFP FUNDING

Under the Administration's proposals the WIC and CSFP funding level would be maintained at a strong level. WIC program participation has grown substantially during this Administration, and high priority WIC cases will continue to receive benefits.

SUMMARY

In summary, I think you can see the common sense in this budget. It responds to the compelling need for the reduction of unnecessary expenditures in order to limit a serious deficit. Our food stamp budget proposals do this by streamlining program operation while reducing errors and abuses.

Our child nutrition budget proposals represent the continuation of a new system designed to re-establish the balance of decisionmaking among the Federal, State and local levels of government. As stated before, the goals of the budget are to simplify program administration by consolidating programs and providing States the flexibility to tailor the specific programs offered to the needs of their localities, to reduce error and deter fraud by transferring income verification responsibilities from school administrators to trained and experienced food stamp staffs, and to create a separate subsidy level for reduced-price meals. We believe that this legislative package is a positive effort to improve program operations at all levels of government.

We look forward to working with this committee on our proposals.

This concludes my statement.

I will be glad to answer any questions you may have at this time.

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